Management's Discussion and Analysis

MARCH 23, 2016

Consolidated Financial Statements and Notes

FOR THE YEAR ENDED
DECEMBER 31, 2015

POWER FINANCIAL CORPORATION

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This document contains management's discussion and analysis of the financial condition and financial performance of Power Financial Corporation (the Corporation) for the twelve-month and three-month periods ended December 31, 2015 and the audited consolidated financial statements of the Corporation as at and for the year ended December 31, 2015. This document has been filed with the securities regulatory authorities in each of the provinces and territories of Canada and mailed to shareholders of the Corporation in accordance with applicable securities laws.

POWER FINANCIAL CORPORATION — PART A

GREAT-WEST LIFECO INC. — PART B

IGM FINANCIAL INC. — PART C

PARGESA HOLDING SA — PART D

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POWER FINANCIAL CORPORATION

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POWER FINANCIAL CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 23, 2016

ALL TABULAR AMOUNTS ARE IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE NOTED.

The following sets forth management's discussion and analysis (MD&A) of the consolidated financial condition and financial performance of Power Financial Corporation (Power Financial or the Corporation) (TSX: PWF), a public corporation, for the twelve-month and three-month periods ended December 31, 2015. This document should be read in conjunction with the audited consolidated financial statements of Power Financial and notes thereto for the twelve-month period ended December 31, 2015 (the 2015 Consolidated Financial Statements). Additional information relating to Power Financial, including its Annual Information Form, may be found on the Corporation's website at www.powerfinancial.com and on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS › Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Corporation's current expectations, or with respect to disclosure regarding the Corporation's public subsidiaries, reflect such subsidiaries' disclosed current expectations. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Corporation's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Corporation and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the Corporation's and its subsidiaries' control, affect the operations, performance and results of the Corporation and its subsidiaries and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks, changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates), the effect of applying future accounting changes, business competition, operational and reputational risks, technological change, changes in government regulation and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Corporation's and its subsidiaries' ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Corporation's and its subsidiaries' success in anticipating and managing the foregoing factors.

The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements. Information contained in forward-looking statements is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management's perceptions of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances, including that the list of factors in the previous paragraph, collectively, are not expected to have a material impact on the Corporation and its subsidiaries. While the Corporation considers these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

Other than as specifically required by applicable Canadian law, the Corporation undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Additional information about the risks and uncertainties of the Corporation's business and material factors or assumptions on which information contained in forward-looking statements is based is provided in its disclosure materials, including this MD&A and its most recent Annual Information Form, filed with the securities regulatory authorities in Canada and available at www.sedar.com.

The following abbreviations are used throughout this report: Euronext Brussels (EBR); Euronext Paris (EPA); GDF Suez (Engie); Great-West Life & Annuity Insurance Company (Great-West Financial or Great-West Life & Annuity); Great-West Lifeco Inc. (Lifeco); Groupe Bruxelles Lambert (GBL); IGM Financial Inc. (IGM or IGM Financial); International Financial Reporting Standards (IFRS); Investors Group Inc. (Investors Group); Irish Life Group Limited (Irish Life); Lafarge SA (Lafarge); LafargeHolcim Ltd (LafargeHolcim); London Life Insurance Company (London Life); Mackenzie Financial Corporation (Mackenzie); Pargesa Holding SA (Pargesa); Parjointco N.V. (Parjointco); Power Corporation of Canada (Power Corporation); Putnam Investments, LLC (Putnam); SGS SA (SGS); Swiss Stock Exchange (SIX); Suez Environnement Company (Suez Environnement); The Canada Life Assurance Company (Canada Life); The Great-West Life Assurance Company (Great-West Life); Total SA (Total); Wealthsimple Financial Corp. (Wealthsimple).

ORGANIZATION OF THE ANNUAL MD&A

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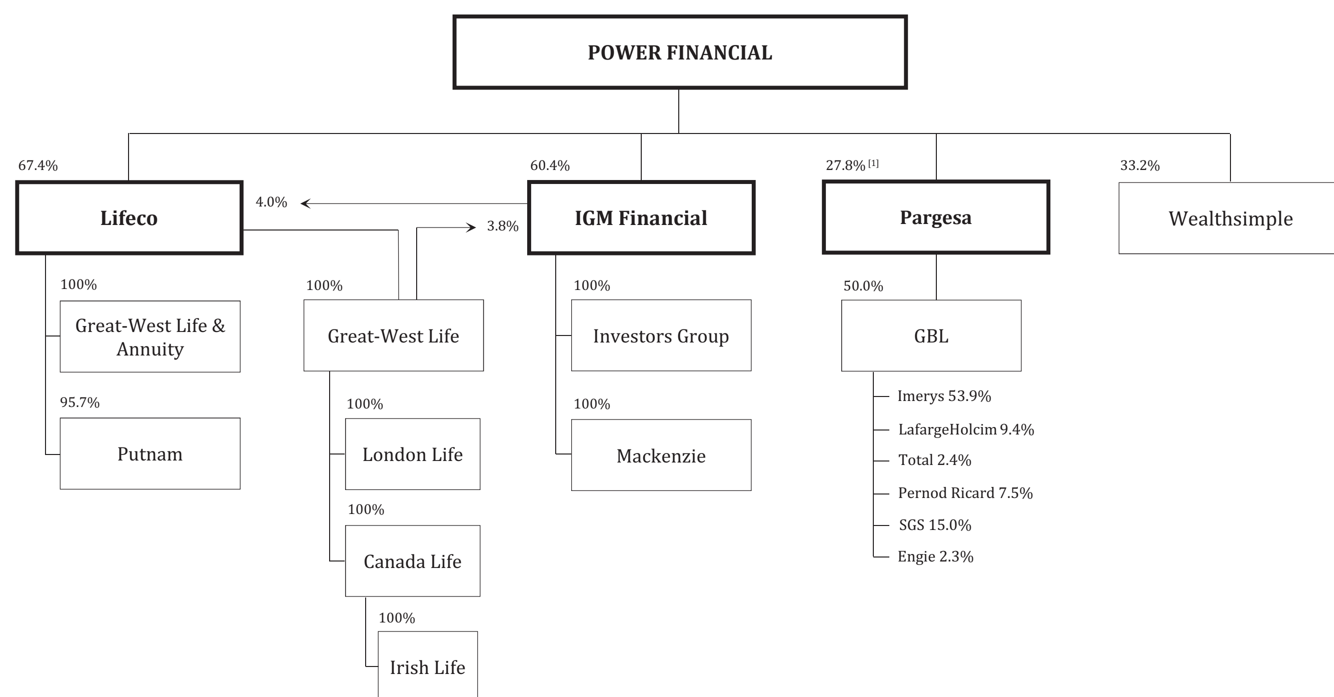
OVERVIEW

Power Financial, a subsidiary of Power Corporation, is a diversified management and holding company with substantial operations in the financial services sector in Canada, the United States and Europe, through its controlling interests in Lifeco and IGM. Power Financial also holds, together with the Frère Group, of Belgium, a controlling interest in Pargesa, a holding company which focuses on a limited number of significant and strategic core holdings, held through its subsidiary, GBL. Lifeco (TSX: GWO) and IGM (TSX: IGM) are public companies listed on the Toronto Stock Exchange. Pargesa is a public company listed on the Swiss Stock Exchange (SIX: PARG).

The Corporation's MD&A consists of four parts:

- Part A — Power Financial, presented on a consolidated and non-consolidated basis;
- Part B — Lifeco's annual MD&A, as prepared and disclosed by Lifeco in accordance with applicable securities legislation, and which is also available either directly from SEDAR (www.sedar.com) or from Lifeco's website (www.greatwestlifeco.com);
- Part C — IGM's annual MD&A, as prepared and disclosed by IGM in accordance with applicable securities legislation, and which is also available either directly from SEDAR (www.sedar.com) or from IGM's website (www.igmfinancial.com);
- Part D — Pargesa's financial results, derived from publicly disclosed information as issued by Pargesa in its end-of-year press release that discusses its earnings. Further information on Pargesa's results is available on its website (www.pargesa.ch).

The following chart shows the economic interest held by the Corporation in its operating subsidiaries and certain other investments at December 31, 2015.



[1] Held through Parjointco, a jointly controlled corporation (50%).

LIFECO

Lifeco is an international financial services holding company with subsidiaries offering life insurance, health insurance, retirement and investment services and engaged in the asset management and reinsurance businesses.

As at December 31, 2015, Power Financial and IGM held 67.4% and 4.0%, respectively, of Lifeco's common shares, representing approximately 65% of the voting rights attached to all outstanding Lifeco voting shares. Voting rights of a life insurance company are limited by law to 65%.

During 2015, Lifeco completed two acquisitions in its Europe segment. In the first quarter of 2015, Lifeco acquired the assets and liabilities associated with The Equitable Life Assurance Society's annuity business in the U.K. The transaction involved the initial reinsurance of approximately 31,000 policies with liabilities and supporting assets of approximately $1.6 billion. The initial reinsurance arrangement was effective January 1, 2015 and the ultimate transfer is expected to be completed in 2016, subject to final court approval. In the third quarter of 2015, Lifeco completed the acquisition of Legal & General International (Ireland) Limited (LGII), a provider of investment and wealth management solutions for high-net-worth individuals in the U.K.

See part B of this MD&A for additional information on Lifeco.

IGM FINANCIAL

IGM is a financial services company which serves the financial needs of Canadians through its principal subsidiaries, each operating distinctly within the advice segment of the financial services market.

As at December 31, 2015, Power Financial and Great-West Life, a subsidiary of Lifeco, held 60.4% and 3.8%, respectively, of IGM's common shares. Power Financial's equity interest in IGM increased by 1.6% from 58.8% as at December 31, 2014 to 60.4% as at December 31, 2015 as a result of IGM's repurchases and subsequent cancellation of its common shares. Great-West Life's equity interest increased from 3.7% to 3.8% over the same period.

See part C of this MD&A for additional information on IGM.

PARGESA AND GBL

Power Financial Europe B.V., a wholly owned subsidiary of Power Financial, and the Frère Group, of Belgium, each hold a 50% interest in Parjointco, which, as at December 31, 2015, held a 55.5% interest in Pargesa, representing 75.4% of the voting rights in that company.

Pargesa is a holding company, which at December 31, 2015, held a 50% interest in GBL, representing 52% of the voting rights in that company. GBL, a Belgian holding company, is listed on the Brussels Stock Exchange (EBR: GBLB).

As at December 31, 2015, GBL's portfolio was mainly comprised of investments in: Imerys – mineral-based specialty solutions for industry (EPA: NK); LafargeHolcim – cement, aggregates and concrete (SIX: HOLN and EPA: LHN); Total – oil, gas and alternative energies (EPA: FP); Pernod Ricard – wines and spirits (EPA: RI); SGS – testing, inspection and certification (SIX: SGSN); and Engie (formerly called GDF Suez) – electricity, natural gas, and energy and environmental services (EPA: GSZ).

On June 1, 2015, Holcim Ltd (Holcim) launched a public exchange offer for all the shares of Lafarge. The offer closed on July 3, 2015. Shares representing 87.46% of the share capital of Lafarge were tendered to the offer. Holcim and Lafarge announced on July 10, 2015 that they had completed their global merger and officially launched LafargeHolcim, whose shares are traded on the Swiss Exchange and on the Euronext in Paris. The exchange offer was subsequently reopened from July 15 to July 28, 2015, resulting in LafargeHolcim holding 96.4% of the share capital of Lafarge. In September 2015, LafargeHolcim implemented a "squeeze-out" procedure for the Lafarge shares not tendered to the public exchange offer, which closed on October 23, 2015. LafargeHolcim also distributed in September 2015 a post-closing stock dividend of one new LafargeHolcim share for 20 existing shares (with no impact on the earnings of GBL).

On June 30, 2015, in accordance with IFRS 5 – *Non-Current Assets Held for Sale and Discontinued Operations*, GBL classified its investment in Lafarge as held for sale. On July 10, 2015, GBL classified its resulting investment in LafargeHolcim as available for sale and consequently the investment was recorded at fair value. Accordingly, mark-to-market gains representing reversals of a portion of a previously recorded impairment charge were recorded by GBL (see "Other Items" on page 15).

At December 31, 2015, GBL held a 9.4% economic and voting interest in LafargeHolcim, and the LafargeHolcim share price was lower than the carrying value of the investment. Under IFRS, available for sales investments are marked to market and impairment charges are recorded if the loss is significant or prolonged. As these criteria were not present at December 31, 2015, GBL did not record an impairment charge on LafargeHolcim. The share price has continued to decline in 2016 and was €38.8 per share on March 11, 2016, a price where the above mentioned criteria are present. GBL has indicated, should the March 31, 2016 share price be the same as the March 11 share price, they would record a non-cash impairment charge of €1,584 million, of which the Corporation's share is approximately C$340 million.

In 2015, GBL disposed of a 0.5% equity interest in Total, which resulted in gains of SF225 million for Pargesa. As at December 31, 2015, GBL held a 2.4% equity interest in Total. In February 2016, GBL sold an additional 1% equity interest in Total, resulting in a gain to be recorded in the first quarter of 2016. Following this transaction, GBL held a 1.4% equity interest in Total.

See Part D of this MD&A for additional information on Pargesa.

WEALTHSIMPLE

In 2015, Power Financial, through a wholly owned subsidiary, invested in Wealthsimple, which is a technology-driven investment manager. Power Financial's investment amounted to $17 million at December 31, 2015. Subsequent to December 31, 2015, Power Financial made a second equity investment in Wealthsimple, bringing the total investment to date to $30 million, representing a 60.4% equity interest.

BASIS OF PRESENTATION

The 2015 Consolidated Financial Statements of the Corporation have been prepared in accordance with IFRS and are presented in Canadian dollars.

Lifeco and IGM are controlled by Power Financial and their financial statements are consolidated with those of Power Financial. Consolidated financial statements present, as a single economic entity, the assets, liabilities, revenues, expenses and cash flows of the parent company and its operating subsidiaries. The consolidated financial statements present the financial results of Power Financial (parent) and Lifeco and IGM (operating subsidiaries) after the elimination of intercompany balances and transactions.

Power Financial's investment in Pargesa is held through Parjointco. Parjointco is a holding company jointly controlled by Power Financial and the Frère Group. Parjointco's only investment is its interest in Pargesa. Power Financial's investment in Parjointco is accounted for using the equity method, in which:

- The investment is initially recognized at cost and adjusted thereafter for post-acquisition changes in Power Financial's share of Pargesa's net assets (shareholders' equity);
- Power Financial's net earnings or loss includes its share of Pargesa's net earnings or loss; and
- Power Financial's other comprehensive income includes its share of Pargesa's other comprehensive income.

Power Financial's investment in Wealthsimple is accounted for using the equity method.

The following table summarizes the accounting presentation for the Corporation's holdings:

Control	Basis of Accounting	Earnings and Other Comprehensive Income	Impairment Testing	Impairment Reversal
Controlling interest in the entity	• Consolidation	• Consolidated with non-controlling interests	• Goodwill and indefinite life intangible assets are tested annually for impairment	• Impairment of goodwill cannot be reversed • Impairment of intangible assets is reversed if there is evidence of recovery of value
Significant influence or joint control	• Equity method of accounting	• Corporation's share of earnings and other comprehensive income	• Entire investment is tested for impairment	• Reversed if there is evidence the investment has recovered its value
Non-controlled portfolio investments	• Available for sale (AFS)	• Earnings consist of dividends received and gains or losses on disposals • The investments are marked to market through other comprehensive income • Earnings are reduced by impairment charges, if any	• Impairment testing is done at the individual investment level • A significant or prolonged decline in the value of the investment results in an impairment charge	• Cannot be reversed even if there is a subsequent recovery of value • A share price decrease subsequent to an impairment leads to a further impairment

As at December 31, 2015, the Corporation's holdings were as follows:

Holdings	% economic interest	Basis of accounting	Method of accounting
Lifeco [1]	67.4	Controlling interest	Consolidation
IGM [2]	60.4	Controlling interest	Consolidation
Pargesa [3]	27.8	Joint control	Equity method of accounting
Wealthsimple [4]	33.2	Significant influence	Equity method of accounting

[1] IGM also holds a 4.0% interest in Lifeco.
[2] Great-West Life also holds a 3.8% interest in IGM.
[3] Held through Parjointco, a jointly controlled corporation (50%).
[4] On February 4, 2016, Power Financial made an additional investment in Wealthsimple; the Corporation now holds a 60.4% equity interest.

As at December 31, 2015, Pargesa's holdings were as follows:

Holdings	% economic interest	Basis of accounting	Method of accounting
GBL	50.0	Controlling interest	Consolidation
Imerys	53.9	Controlling interest	Consolidation
LafargeHolcim [1]	9.4	Portfolio investment	Available for sale
Total	2.4	Portfolio investment	Available for sale
Pernod Ricard	7.5	Portfolio investment	Available for sale
SGS	15.0	Portfolio investment	Available for sale
Engie	2.3	Portfolio investment	Available for sale

[1] Until June 30, 2015, the investment in Lafarge, in which GBL had significant influence with an equity interest of 21.0%, was accounted for using the equity method. On June 30, 2015, the investment in Lafarge was classified as held for sale. Following the merger of Lafarge and Holcim on July 10, 2015, the investment in LafargeHolcim was classified as available for sale.

This summary of accounting presentation should be read in conjunction with the following notes to the Corporation's 2015 Consolidated Financial Statements:

- Basis of presentation and summary of significant accounting policies;
- Investments;
- Investments in jointly controlled corporations and associates;
- Goodwill and intangible assets; and
- Non-controlling interests.

NON-IFRS FINANCIAL MEASURES AND PRESENTATION

In analyzing the financial results of the Corporation and consistent with the presentation in previous periods, "Net earnings attributable to common shareholders", presented in the section "Results of Power Financial Corporation", are comprised of:

- **operating earnings** attributable to common shareholders; and
- **other items** or **non-operating earnings**, which include the after-tax impact of any item that in management's judgment would make the period-over-period comparison of results from operations less meaningful. Other items include the Corporation's share of items presented as other items or non-operating earnings by a subsidiary or a jointly controlled corporation or associate.

Management uses these financial measures in its presentation and analysis of the financial performance of Power Financial, and believes that they provide additional meaningful information to readers in their analysis of the results of the Corporation. Operating earnings, as defined by the Corporation, assist the reader in comparing the current period's results to those of previous periods as items that are not considered to be ongoing operating activities are excluded from this non-IFRS measure.

Operating earnings attributable to common shareholders and operating earnings per share are non-IFRS financial measures that do not have a standard meaning and may not be comparable to similar measures used by other entities. For a reconciliation of these non-IFRS measures to results reported in accordance with IFRS, see the "Results of Power Financial Corporation – Earnings Summary – Condensed Supplementary Non-Consolidated Statements of Earnings" section below.

In this MD&A, a non-consolidated basis of presentation is also used by the Corporation to present and analyze its results, financial position and cash flows. In this basis of presentation, Power Financial's interests in Lifeco and IGM are accounted for using the equity method. Presentation on a non-consolidated basis is a non-IFRS presentation. However, it is useful to the reader as it presents the holding company's (parent) results separately from the results of its operating subsidiaries. Reconciliations of the non-IFRS basis of presentation with the presentation in accordance with IFRS are included elsewhere in this MD&A.

RESULTS OF POWER FINANCIAL CORPORATION

EARNINGS SUMMARY – CONDENSED SUPPLEMENTARY NON-CONSOLIDATED STATEMENTS OF EARNINGS

The following table is a reconciliation of non-IFRS financial measures: operating earnings, non-operating earnings, operating earnings per share and non-operating earnings per share with financial measures presented in accordance with IFRS: net earnings and net earnings per share. In this section, the contributions from Lifeco and IGM, which represent most of the earnings of Power Financial, are accounted for using the equity method.

	Twelve months ended		Three months ended		
	December 31, 2015	December 31, 2014	**December 31, 2015**	September 30, 2015	December 31, 2014
Operating earnings					
Lifeco	**1,862**	1,710	**461**	486	442
IGM	**474**	488	**118**	121	122
Pargesa	**112**	112	**1**	37	14
	2,448	2,310	**580**	644	578
Corporate operations	**(77)**	(73)	**(27)**	(15)	(20)
Dividends on perpetual preferred shares	**(130)**	(132)	**(32)**	(33)	(33)
Operating earnings (attributable to common shareholders)	**2,241**	2,105	**521**	596	525
Other items (non-operating earnings) [1]					
Lifeco	**(1)**	(1)	**(1)**	–	(1)
IGM	**(14)**	(43)	**(14)**	–	(35)
Pargesa	**93**	75	**22**	6	17
	78	31	**7**	6	(19)
Net earnings (attributable to common shareholders)	**2,319**	2,136	**528**	602	506
Earnings per share (attributable to common shareholders)					
Operating earnings	**3.14**	2.96	**0.73**	0.83	0.74
Non-operating earnings	**0.11**	0.04	**0.01**	0.01	(0.03)
Net earnings	**3.25**	3.00	**0.74**	0.84	0.71

[1] See "Other Items" below.

NET EARNINGS (ATTRIBUTABLE TO COMMON SHAREHOLDERS)

Net earnings attributable to common shareholders for the twelve-month period ended December 31, 2015 were $2,319 million or $3.25 per share, compared with $2,136 million or $3.00 per share in the corresponding period in 2014, an increase of 8.3% on a per share basis.

Net earnings attributable to common shareholders for the three-month period ended December 31, 2015, were $528 million or $0.74 per share, compared with $506 million or $0.71 per share in the corresponding period in 2014, an increase of 4.2% on a per share basis. Net earnings attributable to common shareholders were $602 million or $0.84 per share in the third quarter of 2015.

A discussion on the results of the Corporation is provided in the sections "Contribution to operating earnings", "Corporate operations of Power Financial", and "Other items" below.

OPERATING EARNINGS (ATTRIBUTABLE TO COMMON SHAREHOLDERS)

Operating earnings attributable to common shareholders for the twelve-month period ended December 31, 2015 were $2,241 million or $3.14 per share, compared with $2,105 million or $2.96 per share in the corresponding period in 2014, an increase of 6.1% on a per share basis.

Operating earnings attributable to common shareholders for the three-month period ended December 31, 2015 were $521 million or $0.73 per share, compared with $525 million or $0.74 per share in the corresponding period in 2014, a decrease of 1.4% on a per share basis. Operating earnings attributable to common shareholders were $596 million or $0.83 per share in the third quarter of 2015.

CONTRIBUTION TO OPERATING EARNINGS – LIFECO, IGM AND PARGESA

Power Financial's share of operating earnings from Lifeco, IGM and Pargesa increased by 6% for the year ended December 31, 2015, compared with the same period in 2014, from $2,310 million to $2,448 million.

Power Financial's share of operating earnings from Lifeco, IGM and Pargesa for the three-month period ended December 31, 2015 was $580 million, compared with $578 million for the corresponding period in 2014. Power Financial's share of operating earnings from Lifeco, IGM and Pargesa was $644 million in the third quarter of 2015.

Lifeco

Lifeco's contribution to Power Financial's operating earnings for the twelve-month period ended December 31, 2015, was $1,862 million, compared with $1,710 million for the corresponding period in 2014. For the three-month period ended December 31, 2015, Lifeco's contribution to Power Financial's operating earnings was $461 million, compared with $442 million for the corresponding period in 2014 and $486 million in the third quarter of 2015.

- Lifeco reported operating earnings attributable to Lifeco common shareholders of $2,762 million or $2.774 per share for the twelve-month period ended December 31, 2015, compared with $2,546 million or $2.549 per share in the corresponding period in 2014, an increase of 8.8% on a per share basis. For the three-month period ended December 31, 2015, Lifeco reported operating earnings attributable to its common shareholders of $683 million or $0.688 per share, compared with $657 million or $0.658 per share in the corresponding period in 2014, an increase of 4.6% on a per share basis, and $720 million or $0.724 per share in the third quarter of 2015.
- Summary of Lifeco's operating segment results:

	Twelve months ended		Three months ended		
	December 31, 2015	December 31, 2014	**December 31, 2015**	September 30, 2015	December 31, 2014
Canada					
Individual Insurance	**307**	395	**51**	91	120
Wealth Management	**479**	383	**119**	116	69
Group Insurance	**432**	422	**74**	153	96
Canada Corporate	**(23)**	28	**18**	(34)	15
	1,195	1,228	**262**	326	300
United States					
Financial Services	**384**	382	**86**	106	93
Asset Management	**32**	(71)	**41**	(8)	(1)
U.S. Corporate	**(7)**	(5)	**(2)**	(2)	(3)
	409	306	**125**	96	89
Europe					
Insurance and Annuities	**886**	810	**234**	229	218
Reinsurance	**313**	265	**73**	71	71
Europe Corporate	**(25)**	(37)	**(4)**	(4)	(15)
	1,174	1,038	**303**	296	274
Lifeco Corporate	**(16)**	(26)	**(7)**	2	(6)
Operating earnings (attributable to Lifeco common shareholders)	**2,762**	2,546	**683**	720	657
Power Financial's share	**1,862**	1,710	**461**	486	442

For the twelve months ended December 31, 2015, Lifeco's operating earnings attributable to Lifeco common shareholders increased by 8.5% from the previous year, reflecting earnings growth in the Europe and U.S. segments.

CANADA

Operating earnings for the twelve months ended December 31, 2015 were $1,195 million, compared to $1,228 million for the corresponding period in 2014. Operating earnings for the three months ended December 31, 2015 were $262 million, a decrease of $38 million compared with the same quarter last year. The fourth quarter of 2014 included changes to actuarial standards related to economic reinvestment assumptions that positively impacted operating earnings in the three-month period ended December 31, 2014 that did not recur in 2015.

UNITED STATES

Operating earnings for the twelve months ended December 31, 2015 were US$318 million (C$409 million), compared to US$274 million (C$306 million) for the corresponding period in 2014. Operating earnings for the three months ended December 31, 2015 were US$92 million (C$125 million), an increase of US$15 million (C$36 million) compared with the same quarter last year. This increase in the three-month and twelve-month periods is primarily due to higher net investment income and the positive impact of an adjustment to certain income tax estimates of US$27 million in the fourth quarter of 2015, partially offset by lower fee income.

EUROPE

Operating earnings for the twelve months ended December 31, 2015 were $1,174 million, an increase of $136 million compared to the same period in 2014, primarily due to the impact of currency movements, higher contributions from insurance contract liability basis changes, and higher asset management fees, partially offset by lower contributions from investment experience. Operating earnings for the fourth quarter of 2015 were $303 million, an increase of $29 million from the same quarter last year, primarily due to lower taxes and the positive impact of currency movements, partially offset by lower contributions from insurance contract liability basis changes.

See Part B of this MD&A for more information on Lifeco's results.

IGM Financial

IGM's contribution to Power Financial's operating earnings was $474 million for the twelve-month period ended December 31, 2015, compared with $488 million for the corresponding period in 2014. For the three-month period ended December 31, 2015, IGM's contribution to Power Financial's operating earnings was $118 million, compared with $122 million for the corresponding period in 2014, and $121 million in the third quarter of 2015.

- IGM reported operating earnings available to IGM common shareholders of $796 million or $3.21 per share for the twelve-month period ended December 31, 2015, compared with $826 million or $3.27 per share in the corresponding period in 2014. For the three-month period ended December 31, 2015, IGM reported operating earnings available to its common shareholders of $198 million or $0.81 per share, compared with $208 million or $0.83 per share in the corresponding period in 2014, and $199 million or $0.81 per share in the third quarter of 2015.
- Operating earnings before interest and taxes of IGM's segments (a non-IFRS measure, as discussed in Part C of this MD&A) and operating earnings available to IGM common shareholders were as follows:

	Twelve months ended		Three months ended		
	December 31, 2015	December 31, 2014	**December 31, 2015**	September 30, 2015	December 31, 2014
Investors Group	**761**	777	**190**	190	197
Mackenzie	**216**	246	**51**	54	53
Corporate and other	**140**	133	**36**	36	39
Operating earnings (before interest, income taxes, preferred share dividends and other)	**1,117**	1,156	**277**	280	289
Interest expense, income taxes, preferred share dividends and other	**(321)**	(330)	**(79)**	(81)	(81)
Operating earnings (available to IGM common shareholders)	**796**	826	**198**	199	208
Power Financial's share	**474**	488	**118**	121	122

INVESTORS GROUP

Operating earnings decreased in the three-month and twelve-month periods ended December 31, 2015, compared to the same periods in 2014, due to higher expenses principally resulting from consultant network expansion, other business development efforts, pension expense, as well as the timing of certain expenditures, partially offset by higher revenue primarily due to higher assets under management.

MACKENZIE

Operating earnings decreased in the three-month and twelve-month periods ended December 31, 2015, compared to the same periods in 2014, due to a combination of lower total assets under management in the quarter, as well as higher expenses related to the enhancement of future operating capabilities (systems and technology) and the investment in revenue-generating initiatives to further grow its business.

- Total assets under management were as follows:

(In billions of dollars)	**December 31, 2015**	September 30, 2015	December 31, 2014	September 30, 2014
Investors Group	**74.9**	73.5	73.5	72.7
Mackenzie	**61.7**	60.3	70.9	70.0
Corporate and other [1]	**(3.0)**	(2.9)	(2.5)	(2.1)
Total	**133.6**	130.9	141.9	140.6

[1] Includes Investment Planning Counsel's assets under management less an adjustment for assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel.

- Total average daily mutual fund assets under management were as follows:

				2015				2014
(In billions of dollars)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Investors Group	**75.3**	75.4	76.8	75.5	72.5	73.1	71.5	69.3
Mackenzie	**48.5**	49.2	50.6	50.5	48.3	49.3	48.5	47.0
Corporate and other [1]	**4.0**	4.0	4.0	3.9	3.8	3.8	3.6	3.4
Total	**127.8**	128.6	131.4	129.9	124.6	126.2	123.6	119.7

[1] Includes Investment Planning Counsel's assets under management less an adjustment for assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel.

See Part C of this MD&A for more information on IGM's results.

Pargesa

Pargesa's contribution to Power Financial's operating earnings was $112 million for the twelve-month period ended December 31, 2015, same as in the corresponding period in 2014. For the three-month period ended December 31, 2015, Pargesa's contribution to Power Financial's operating earnings was $1 million, compared with $14 million in the corresponding period in 2014, and $37 million in the third quarter of 2015.

The components of Pargesa's operating earnings were:

	Twelve months ended		Three months ended		
(In millions of Swiss francs)	**December 31, 2015**	December 31, 2014	**December 31, 2015**	September 30, 2015	December 31, 2014
Contribution from principal holdings					
Share of earnings of:					
Imerys	**102**	113	**25**	26	27
Lafarge [1]	**13**	55	–	–	8
Dividends from:					
Total	**85**	97	**22**	23	22
SGS	**37**	40	–	–	–
Pernod Ricard	**20**	20	**11**	–	10
Engie	**26**	35	–	13	–
Suez Environnement	**–**	2	–	–	–
	283	362	**58**	62	67
Contribution from private equity activities and other investment funds	**14**	34	–	13	14
Net financing charges	**34**	(33)	**(44)**	26	(29)
Other operating income from holding company activities	**10**	6	–	4	–
General expenses and taxes	**(33)**	(30)	**(13)**	(5)	(7)
Operating earnings	**308**	339	**1**	100	45
Power Financial's share (in millions of Canadian dollars)	**112**	112	**1**	37	14

[1] Share of earnings of Lafarge until June 30, 2015.

Results for the three-month and twelve-month periods ended December 31, 2015 reflect the impact of the euro's depreciation relative to the Swiss franc since the beginning of the year on GBL's contribution to Pargesa. GBL's functional currency is the euro and its contribution constitutes most of Pargesa's earnings. As there has not been a significant depreciation of the euro relative to the Canadian dollar in 2015, Power Financial's share of GBL's earnings in 2015 is the same as in 2014.

The average exchange rates for the twelve-month period ended December 31, 2015 were as follows:

	Twelve months ended			Three months ended		
	December 31, 2015	December 31, 2014	Change %	**December 31, 2015**	December 31, 2014	Change %
Euro/SF	**SF1.07**	SF1.21	(12)	**SF1.09**	SF1.21	(10)
SF/CAD	**C$1.33**	C$1.21	10	**C$1.35**	C$1.18	14

Pargesa's operating earnings decreased in the twelve-month period ended December 31, 2015, mainly due to:

- As of July 1, 2015, the investment in Lafarge was no longer being accounted for using the equity method (see "Overview" above); the contribution from Lafarge in 2015 is therefore not comparable with the same period in 2014;
- A decrease in the contribution from private equity activities and other investment funds; and
- A decrease in the contribution from GBL to Pargesa's operating earnings due to the depreciation of the euro relative to the Swiss franc (see table above).

A significant portion of Pargesa's earnings consists of dividends received from:

- Total (regularly declared in the second, third and fourth quarters);
- SGS (regularly declared in the first quarter);
- Pernod Ricard (regularly declared in the second and fourth quarters); and
- Engie (regularly declared in the second and third quarters).

In addition to the effect of exchange rates discussed above, the changes in dividends received reflect the 0.5% decrease in GBL's equity interest in Total in 2015 and the decrease in the dividend declared by Engie.

Net financing charges include interest income and expenses and the result of the mark to market of derivative financial instruments. Net financing charges for the twelve-month period ended December 31, 2015 include Pargesa's share of:

- Net gains (losses) are related to call options embedded in bonds exchangeable for Suez Environnement shares and Engie shares and in bonds issued by GBL in 2013 which are convertible for GBL shares. GBL had issued in the past bonds exchangeable for Suez Environnement (issued in 2012 and now expired) and Engie (issued in 2013 and expiring in 2017) shares. Net gains for the twelve-month period ended December 31, 2015, recorded by GBL in the amount of SF56 million (loss of SF22 million for the fourth quarter), compared to a loss of SF6 million (loss of SF23 million for the fourth quarter) in the corresponding period of 2014.

See Part D of this MD&A for more information on Pargesa's results.

CORPORATE OPERATIONS OF POWER FINANCIAL

Corporate operations include income from investments, operating expenses, financing charges, depreciation and income taxes.

	Twelve months ended		Three months ended		
	December 31, 2015	December 31, 2014	**December 31, 2015**	September 30, 2015	December 31, 2014
Income from investments					
Interest on cash and cash equivalents and foreign exchange gains (losses)	**24**	14	**5**	9	4
Six-month equity put options on S&P 500	**–**	(3)	**–**	–	–
Other	**(3)**	1	**(1)**	(2)	–
	21	12	**4**	7	4
Operating and other expenses	**(98)**	(85)	**(31)**	(22)	(24)
Corporate operations	**(77)**	(73)	**(27)**	(15)	(20)

Operating and other expenses

Operating and other expenses were $98 million for the twelve-month period ended December 31, 2015, compared with $85 million in the corresponding period of 2014. For the three-month period ended December 31, 2015, operating and other expenses were $31 million, compared to $24 million in the corresponding period of 2014 and $22 million in the third quarter of 2015. The increase in the three-month and twelve-month periods is primarily due to a deferred income tax expense relating to withholding taxes applicable to an expected repatriation of cash held by Power Financial Europe B.V. to Power Financial.

OTHER ITEMS (NON-OPERATING EARNINGS)

The following table presents the Corporation's share of Lifeco's, IGM's and Pargesa's Other items:

	Twelve months ended		Three months ended		
	December 31, 2015	December 31, 2014	**December 31, 2015**	September 30, 2015	December 31, 2014
IGM					
Restructuring and other charges	**(15)**	(8)	**(15)**	–	–
Distribution to clients	–	(36)	**–**	–	(36)
Pargesa					
Total – Gain on partial disposal	**57**	70	**48**	–	25
Suez Environnement – Gain on exchange	**4**	17	**–**	–	–
LafargeHolcim – Mark-to-market gains and reversal of impairment charges related to the merger	**88**	–	**–**	8	–
Lafarge – Impairment and restructuring charges	**(23)**	–	**–**	–	–
Imerys – Impairment and restructuring charges	**(26)**	–	**(26)**	–	–
Other (charge) income	**(7)**	(12)	**–**	(2)	(8)
	78	31	**7**	6	(19)

Other items in 2015 were mainly comprised of the Corporation's share of:

IGM Financial

FOURTH QUARTER

- Restructuring and other charges: reflecting severance and payments to third parties related to exiting certain investment management activities and third-party back office relationships associated with Mackenzie and Investors Group, for an amount of $15 million.

Pargesa

FIRST QUARTER

- Total – Gain on partial disposal: GBL disposed of a 0.1% equity interest in Total for a gain of $9 million.
- Suez Environnement – Gain on exchange: a gain of $2 million, resulting from delivery of Suez Environnement shares pursuant to the exercise of exchange rights by certain holders of Suez Environnement's exchangeable bonds.

SECOND QUARTER

- Suez Environnement – Gain on exchange: a gain of $2 million, as described in the first quarter above.
- Lafarge – Impairment and restructuring charges: a charge of $23 million, representing non-operating items recorded by Lafarge, comprised of impairment charges and charges recorded in connection with the merger with Holcim.
- LafargeHolcim – Mark-to-market gains of $80 million representing the partial reversal of previous impairment charges recorded by GBL on its investment in Lafarge, resulting from its merger with Holcim. See also Part D of this MD&A for more information.

THIRD QUARTER

- LafargeHolcim – Mark-to-market gains of $8 million as described in the second quarter above.

FOURTH QUARTER

- Total – Gain on partial disposal: GBL disposed of an additional 0.4% equity interest in Total for a gain of $48 million.
- Imerys – Impairment and restructuring charges: a charge of $26 million, representing non-operating items recorded by Imerys, comprised of the impairment charge on its Oilfield Solutions division and restructuring charges relating to the integration of S&B's activities (S&B is a global provider of mineral-based specialties).

Other items in 2014 were mainly comprised of the Corporation's share of:

IGM Financial

SECOND QUARTER

- Restructuring and other charges: primarily reflecting severance and other one-time costs associated with Mackenzie cost rationalization activities as well as senior management changes announced and implemented during the second quarter of 2014, for an amount of $8 million.

FOURTH QUARTER

- Distribution to clients: in the amount of $36 million. In the third quarter of 2012, Investors Group introduced investment solutions for clients with household account balances in excess of $500,000. At December 31, 2014, an accrual was recorded related to these lower-fee investment solutions. This amount primarily reflects distributions to clients who did not transfer to these lower-priced solutions when eligible.

Pargesa

FIRST QUARTER

- Total – Gain on partial disposal: GBL disposed of a 0.2% equity interest in Total for an amount of $26 million.

SECOND QUARTER

- Total – Gain on partial disposal: GBL disposed of an additional 0.2% equity interest in Total for an amount of $17 million.
- Suez Environnement – Gain on exchange: a gain of $17 million, resulting from the delivery of Suez Environnement shares pursuant to the exercise of exchange rights by certain holders of Suez Environnement's exchangeable bonds.

THIRD QUARTER

- Total – Gain on partial disposal: GBL disposed of an additional portion of its interest in Total for an amount of $2 million.

FOURTH QUARTER

- Total – Gain on partial disposal: GBL disposed of an additional 0.2% equity interest in Total for an amount of $25 million.

FINANCIAL POSITION

CONSOLIDATED BALANCE SHEETS (CONDENSED)

The condensed balance sheet of Lifeco and IGM, and Power Financial's non-consolidated balance sheet are presented below. This table reconciles the non-consolidated balance sheet, which is not in accordance with IFRS, with the condensed consolidated balance sheet of the Corporation as of December 31, 2015.

	Power Financial	Lifeco	IGM	Consolidation adjustments [1]	Power Financial Consolidated balance sheets	
					December 31, 2015	December 31, 2014
Assets						
Cash and cash equivalents	870	2,813	983	(478)	**4,188**	3,989
Investments	55	158,133	7,443	381	**166,012**	150,842
Investments in Lifeco and IGM	16,631	358	904	(17,893)	**–**	–
Investment in Parjointco	2,610	–	–	–	**2,610**	2,440
Investments in jointly controlled corporations and associates	–	277	–	18	**295**	237
Funds held by ceding insurers	–	15,512	–	–	**15,512**	12,154
Reinsurance assets	–	5,131	–	–	**5,131**	5,151
Other assets	123	9,568	894	(90)	**10,495**	9,418
Intangible assets	–	4,036	1,947	–	**5,983**	5,497
Goodwill	–	5,913	2,660	637	**9,210**	9,149
Interest on account of segregated fund policyholders	–	198,194	–	–	**198,194**	174,966
Total assets	20,289	399,935	14,831	(17,425)	**417,630**	373,843
Liabilities						
Insurance and investment contract liabilities	–	160,672	–	–	**160,672**	146,055
Obligations to securitization entities	–	–	7,092	–	**7,092**	6,754
Debentures and other debt instruments	250	5,395	1,325	(43)	**6,927**	6,887
Other liabilities	489	10,414	1,566	(126)	**12,343**	10,279
Insurance and investment contracts on account of segregated fund policyholders	–	198,194	–	–	**198,194**	174,966
Total liabilities	739	374,675	9,983	(169)	**385,228**	344,941
Equity						
Perpetual preferred shares	2,580	2,514	150	(2,664)	**2,580**	2,580
Common shareholders' equity	16,970	19,940	4,698	(24,638)	**16,970**	14,439
Non-controlling interests [2, 3]	–	2,806	–	10,046	**12,852**	11,883
Total equity	19,550	25,260	4,848	(17,256)	**32,402**	28,902
Total liabilities and equity	20,289	399,935	14,831	(17,425)	**417,630**	373,843

[1] Consolidation adjustments include eliminations and reclassifications.
[2] Non-controlling interests for Lifeco includes the Participating Account surplus in subsidiaries.
[3] Non-controlling interests for consolidation adjustments represents non-controlling interests in the equity of Lifeco and IGM.

Total assets of the Corporation increased to $417.6 billion at December 31, 2015, compared with $373.8 billion at December 31, 2014, mainly due to the following:

- Investments at December 31, 2015 were $166 billion, a $15.2 billion increase from December 31, 2014, primarily due to the impact of currency movements as the U.S. dollar and British pound strengthened against the Canadian dollar.
- Interest on account of segregated fund policyholders increased by $23.2 billion, primarily due to the impact of currency movements and the impact of the acquisition of Legal & General International (Ireland) Limited (LGII).

Liabilities increased to $385.2 billion at December 31, 2015, compared with $344.9 billion at December 31, 2014, mainly due to the following, as disclosed by Lifeco:

- Insurance and investment contract liabilities increased by $14.6 billion, primarily due to the strengthening of the U.S. dollar, euro and British pound against the Canadian dollar and Lifeco's acquisition of Equitable Life's annuity business and a block of investment contract liabilities in the form of structured settlements with fixed terms and amounts.
- Insurance and investment contract liabilities on account of segregated fund policyholders increased by $23.2 billion, primarily due to the impact of currency movements of $12.9 billion, the $5.5 billion impact of the acquisition of LGII, and the combined impact of market value gains and investment income of $4.7 billion, partially offset by net withdrawals of $0.3 billion.

Parts B and C of this MD&A include a discussion of the consolidated balance sheets of Lifeco and IGM, respectively.

NON-CONSOLIDATED BALANCE SHEETS

In the non-consolidated basis of presentation shown below, Lifeco and IGM are presented by the Corporation using the equity method. These non-consolidated balance sheets, which are not in accordance with IFRS, enhance the MD&A and assist the reader by identifying changes in Power Financial's non-consolidated balance sheets, which include its investments in Lifeco and IGM at equity.

	December 31, 2015	December 31, 2014
Assets		
Cash and cash equivalents [1]	**870**	786
Investments	**55**	31
Investments in Lifeco and IGM, at equity	**16,631**	14,342
Investment in Parjointco at equity	**2,610**	2,440
Other assets	**123**	135
Total assets	**20,289**	17,734
Liabilities		
Debentures	**250**	250
Other liabilities	**489**	465
Total liabilities	**739**	715
Equity		
Perpetual preferred shares	**2,580**	2,580
Common shareholders' equity	**16,970**	14,439
Total equity	**19,550**	17,019
Total liabilities and equity	**20,289**	17,734

[1] In these non-consolidated balance sheets, cash equivalents include $478 million ($511 million at December 31, 2014) of fixed income securities with maturities of more than 90 days. In the 2015 Consolidated Financial Statements, this amount is classified in investments.

Cash and cash equivalents

Cash and cash equivalents held by Power Financial amounted to $870 million at December 31, 2015, compared with $786 million at the end of December 2014. The fourth quarter dividend declared by the Corporation and paid on February 1, 2016, amounted to $298 million. Dividends declared in the fourth quarter by IGM and received by the Corporation on January 29, 2016, amounted to $83 million (see "Non-consolidated Statements of Cash Flows" below for details).

Investment in Subsidiaries and Parjointco

The carrying value of Power Financial's investments in Lifeco, IGM and Parjointco, at equity, increased to $19,241 million at December 31, 2015, compared with $16,782 million at December 31, 2014:

	Lifeco	IGM	Parjointco	Total
Carrying value, at the beginning of the year	11,548	2,794	2,440	16,782
Share of operating earnings	1,862	474	112	2,448
Share of other items	(1)	(14)	93	78
Share of other comprehensive income	1,243	51	24	1,318
Dividends	(873)	(333)	(69)	(1,275)
Other, mainly related to effects of change in ownership	(30)	(90)	10	(110)
Carrying value, at December 31, 2015	13,749	2,882	2,610	19,241

EQUITY

Preferred Shares

Preferred Shares of the Corporation consist of 10 series of Non-Cumulative Fixed Rate First Preferred Shares and two series of Non-Cumulative 5-year Rate Reset Preferred Shares, with an aggregate stated capital of $2,580 million as at December 31, 2015 (same as at December 31, 2014). All series are perpetual preferred shares and are redeemable in whole or in part solely at the Corporation's option from specified dates.

On February 1, 2016, 2,234,515 of its outstanding 11,200,000 Non-Cumulative 5-year Rate Reset First Preferred Shares, Series P were converted, on a one-for-one basis, into Non-Cumulative Floating Rate First Preferred Shares, Series Q.

The terms and conditions of the outstanding First Preferred Shares are described in Note 17 to the Corporation's Consolidated Financial Statements.

Common Shareholders' Equity

Common shareholders' equity was $16,970 million at December 31, 2015, compared with $14,439 million at December 31, 2014:

Twelve months ended December 31	2015
Common shareholders' equity, at the beginning of the year	14,439
Changes in retained earnings	
Net earnings	2,449
Dividends declared	(1,193)
Effects of changes in ownership in subsidiaries and other	(137)
	1,119
Changes in reserves	
Other comprehensive income (loss)	
Foreign currency translation adjustments	1,370
Available-for-sale assets and cash flow hedges	(184)
Actuarial gains (losses) related to benefit plans	105
Share of Pargesa's and other associates' other comprehensive income	60
	1,351
Issuance of 1,515,000 common shares under the Corporation's Employee Stock Option Plan [1]	61
Common shareholders' equity at December 31	16,970

[1] Issued for $49 million and including an amount of $12 million representing the cumulative expenses related to these options.

The book value per common share of the Corporation was $23.79 at December 31, 2015, compared with $20.29 at the end of 2014.

Outstanding Number of Common Shares

As of the date of this MD&A, there were 713,238,680 common shares of the Corporation outstanding, compared with 711,723,680 as at December 31, 2014. The increase in the number of outstanding common shares reflects the options exercised under the Corporation's Employee Stock Option Plan. As of the date of this MD&A, options were outstanding to purchase up to an aggregate of 8,773,932 common shares of the Corporation under the Corporation's Employee Stock Option Plan.

The Corporation filed a short-form base shelf prospectus dated November 24, 2014, pursuant to which, for a period of 25 months thereafter, the Corporation may issue up to an aggregate of $3 billion of First Preferred Shares, common shares, subscription receipts and unsecured debt securities, or any combination thereof. This filing provides the Corporation with the flexibility to access debt and equity markets on a timely basis.

CASH FLOWS

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONDENSED)

The condensed cash flow of Lifeco and IGM, and Power Financial's non-consolidated cash flow, are presented below. This table reconciles the non-consolidated statement of cash flows, which is not in accordance with IFRS, to the condensed consolidated statement of cash flows of the Corporation for the twelve-month period ended December 31, 2015.

	Power Financial	Lifeco	IGM	Consolidation adjustments	Power Financial Consolidated cash flows	
Twelve months ended December 31					**2015**	2014
Cash flow from:						
Operating activities	1,229	5,123	622	(1,278)	**5,696**	6,136
Financing activities	(1,127)	(1,683)	(420)	1,278	**(1,952)**	(1,136)
Investing activities	(18)	(3,424)	(435)	33	**(3,844)**	(5,433)
Effect of changes in exchange rates on cash and cash equivalents	–	299	–	–	**299**	78
Increase (decrease) in cash and cash equivalents	84	315	(233)	33	**199**	(355)
Cash and cash equivalents, at the beginning of the year	786	2,498	1,216	(511)	**3,989**	4,344
Cash and cash equivalents, at December 31	870	2,813	983	(478)	**4,188**	3,989

On a consolidated basis, cash and cash equivalents increased by $199 million in the twelve-month period ended December 31, 2015, compared with a decrease of $355 million in the corresponding period of 2014.

Operating activities produced a net inflow of $5,696 million in the twelve-month period ended December 31, 2015, compared with a net inflow of $6,136 million in the corresponding period of 2014.

Cash flows from financing activities, which include dividends paid on the common and preferred shares of the Corporation and dividends paid by subsidiaries to non-controlling interests, represented a net outflow of $1,952 million in the twelve-month period ended December 31, 2015, compared with a net outflow of $1,136 million in the corresponding period of 2014.

Cash flows from investing activities resulted in a net outflow of $3,844 million in the twelve-month period ended December 31, 2015, compared with a net outflow of $5,433 million in the corresponding period of 2014.

The Corporation decreased its level of fixed income securities with maturities of more than 90 days, resulting in a net inflow of $33 million in the twelve-month period ended December 31, 2015, compared with a net outflow of $57 million in the corresponding period of 2014.

Parts B and C of this MD&A include a discussion of the cash flows of Lifeco and IGM, respectively.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

As Power Financial is a holding company, corporate cash flows are primarily comprised of dividends received from Lifeco, IGM and Parjointco and income from investments, less operating expenses, financing charges, income taxes and preferred and common share dividends.

The following non-consolidated cash flows statement of the Corporation, which is not presented in accordance with IFRS, has been prepared to assist the reader as it isolates the cash flows of Power Financial, the parent company.

Twelve months ended December 31	**2015**	2014
Operating activities		
Net earnings before dividends on perpetual preferred shares	**2,449**	2,268
Adjusting items		
Earnings from Lifeco, IGM and Parjointco not received in cash	**(1,251)**	(1,123)
Other	**31**	17
	1,229	1,162
Financing activities		
Dividends paid on preferred shares	**(130)**	(132)
Dividends paid on common shares	**(1,046)**	(996)
Repurchase of preferred shares	**–**	(175)
Issuance of common shares	**49**	17
	(1,127)	(1,286)
Investing activities		
Investment in Wealthsimple	**(17)**	–
Other	**(1)**	(15)
	(18)	(15)
Increase (decrease) in cash and cash equivalents	**84**	(139)
Cash and cash equivalents, at the beginning of the year	**786**	925
Cash and cash equivalents, at December 31	**870**	786

On a non-consolidated basis, cash and cash equivalents increased by $84 million in the twelve-month period ended December 31, 2015, compared with a decrease of $139 million in the corresponding period in 2014.

Operating activities produced a net inflow of $1,229 million in the twelve-month period ended December 31, 2015, compared with a net inflow of $1,162 million in the corresponding period in 2014.

- In the twelve-month period ended December 31, 2015, the Corporation received dividends from Lifeco of $873 million, compared with $824 million in the corresponding period of 2014. Dividends declared by Lifeco on its common shares during the twelve-month period ended December 31, 2015 were $1.3040 per share, compared with $1.2300 per share in the corresponding period of 2014. On February 11, 2016, Lifeco announced an increase of its quarterly dividend from $0.3260 to $0.3460 per common share, an increase of 6.1%, payable March 31, 2016.
- In the twelve-month period ended December 31, 2015, the Corporation received dividends from IGM of $333 million, compared with $322 million in the corresponding period of 2014. Dividends declared by IGM on its common shares during the twelve-month period ended December 31, 2015 were $2.2500 per share, compared with $2.1750 per share in the corresponding period of 2014.
- Pargesa declares and pays an annual dividend in the second quarter ending June 30. The dividend paid by Pargesa to Parjointco in 2015 amounted to SF2.27 per bearer share, compared with SF2.64 in 2014. The Corporation received dividends of $69 million (SF53 million) from Parjointco in 2015, compared with $75 million (SF62 million) in the corresponding period of 2014. At its upcoming annual meeting in May, Pargesa's board of directors will propose for shareholder approval a 2015 dividend of SF2.38 per bearer share, to be paid on May 10, 2016.

The Corporation's financing activities during the twelve-month period ended December 31, 2015 were a net outflow of $1,127 million, compared with a net outflow of $1,286 million in the corresponding period in 2014, and included:

- Dividends paid on preferred and common shares by the Corporation of $1,176 million, compared with $1,128 million in the corresponding period of 2014. In the twelve-month period ended December 31, 2015, dividends declared on the Corporation's common shares were $1.49 per share, compared with $1.40 per share in the corresponding period of 2014.
- Repurchase of First Preferred Shares, Series M, for an amount of $175 million in the first quarter of 2014.
- Issuance of common shares of the Corporation for $49 million pursuant to the Corporation's Employee Stock Option Plan, compared with $17 million in the corresponding period of 2014.

The Corporation's investing activities during the twelve-month period ended December 31, 2015 represented a net outflow of $18 million, compared to a net outflow of $15 million in the corresponding period of 2014.

CAPITAL MANAGEMENT

As a holding company, Power Financial's objectives in managing its capital are to:

- provide attractive long-term returns to shareholders of the Corporation;
- provide sufficient financial flexibility to pursue its growth strategy to invest on a timely basis in its operating companies and other investments as opportunities present; and
- maintain an appropriate credit rating to ensure stable access to the capital markets.

The Corporation manages its capital taking into consideration the risk characteristics and liquidity of its holdings. In order to maintain or adjust its capital structure, the Corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue capital.

The Board of Directors of the Corporation is responsible for capital management. Management of the Corporation is responsible for establishing capital management procedures and for implementing and monitoring its capital plans. The Board of Directors of the Corporation reviews and approves capital transactions such as the issuance, redemption and repurchase of common shares, perpetual preferred shares and debentures. The boards of directors of the public subsidiaries, as well as those of Pargesa and GBL, are responsible for their respective company's capital management.

The Corporation holds positions in long-term investments as well as cash and fixed income securities for liquidity purposes. With the exception of debentures and other debt instruments, the Corporation's capital is permanent, matching the long-term nature of its investments. The capital structure of the Corporation consists of perpetual preferred shares, debentures, common shareholders' equity, and non-controlling interests. The Corporation views perpetual preferred shares as a permanent and cost-effective source of capital consistent with its strategy of maintaining a relatively low level of debt.

In the following table, consolidated capitalization reflects the consolidation of the Corporation's subsidiaries. The Corporation's consolidated capitalization includes the debentures and other debt instruments of its consolidated subsidiaries. Debentures and other debt instruments issued by Lifeco and IGM are non-recourse to the Corporation. Perpetual preferred shares and total equity account for 82% of consolidated capitalization at December 31, 2015.

	December 31, 2015	December 31, 2014
Debentures and other debt instruments		
Power Financial	**250**	250
Lifeco	**5,395**	5,355
IGM	**1,325**	1,325
Consolidating adjustments	**(43)**	(43)
	6,927	6,887
Preferred shares		
Power Financial	**2,580**	2,580
Lifeco	**2,514**	2,514
IGM	**150**	150
	5,244	5,244
Equity		
Common shareholders' equity	**16,970**	14,439
Non-controlling interests [1]	**10,188**	9,219
	27,158	23,658
	39,329	35,789

[1] Represents the non-controlling equity interests of the Corporation's subsidiaries excluding Lifeco and IGM's preferred shares, which are shown in this table as preferred shares.

The Corporation is not subject to externally imposed regulatory capital requirements; however, Lifeco and certain of its main subsidiaries and IGM's subsidiaries are subject to regulatory capital requirements. Parts B and C of this MD&A further describe the capital management activities of Lifeco and IGM, respectively.

RATINGS

The current rating by Standard & Poor's (S&P) of the Corporation's debentures is "A+" with a stable outlook. Dominion Bond Rating Service's (DBRS) current rating on the Corporation's debentures is "A (High)" with a stable rating trend.

Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a corporation and are indicators of the likelihood of payment and the capacity of a corporation to meet its obligations in accordance with the terms of each obligation. Descriptions of the rating categories for each of the agencies set forth below have been obtained from the respective rating agencies' websites. These ratings are not a recommendation to buy, sell or hold the securities of the Corporation and do not address market price or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

The "A+" rating assigned to the Corporation's debentures by S&P is the fifth highest of the 22 ratings used for long-term debt. A long-term debenture rated "A+" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories, however, the obligor's capacity to meet its financial commitment on the obligation is still strong.

The "A (High)" rating assigned to the Corporation's debentures by DBRS is the fifth highest of the 26 ratings used for long-term debt. A long-term debenture rated "A (High)" implies that the capacity for the repayment is substantial, but of lesser credit quality than AA, and may be vulnerable to future events, although qualifying negative factors are considered manageable. On December 17, 2015, DBRS adopted a new Global Insurance Methodology and the Corporation's rating changed from "AA (Low)" to "A (High)".

RISK MANAGEMENT

Power Financial is a holding company that holds substantial interests in the financial services sector through its controlling interest in each of Lifeco and IGM. As a result, the Corporation bears the risks associated with being a significant shareholder of these operating companies. The respective boards of directors of Lifeco, IGM, Pargesa and GBL are responsible for the risk oversight function at their respective companies. The risk committee of the board of directors of Lifeco is responsible for its risk oversight, and the board of directors of IGM provides oversight and carries out its risk management mandate through various committees. Certain officers of the Corporation are members of these boards and committees of these boards and, consequently, in their role as directors, they participate in the risk oversight function at the operating companies. Parts B and C of this MD&A further describe risks related to Lifeco and IGM, respectively. Pargesa, a holding company, is also subject to risks due to the nature of its activities and also those of its direct subsidiary GBL. These risks relate to credit, liquidity and market risk as described in Pargesa's consolidated financial statements for the year ended December 31, 2015.

The Corporation believes that a prudent approach to risk is achieved through a governance model that focuses on the active oversight of its investments. The Board of Directors of the Corporation has overall responsibility for operational risks associated with financial instruments and for monitoring management's implementation and maintenance of policies and controls to manage the risks associated with the Corporation's business as a holding company.

The Board of Directors provides oversight and carries out its risk management mandate primarily through the following committees:

- The Audit Committee addresses risks related to financial reporting.
- The Compensation Committee considers risks associated with the Corporation's compensation policies and practices.
- The Governance and Nominating Committee oversees the Corporation's approach to appropriately address potential risks related to governance matters.
- The Related Party and Conduct Review Committee oversees the risks related to transactions with related parties of the Corporation.

There are certain risks inherent in an investment in the securities of the Corporation and in the activities of the Corporation, including the following risks and others discussed elsewhere in this MD&A, which investors should carefully consider before investing in securities of the Corporation. The following is a review of certain risks that could impact the financial condition and financial performance, and the value of the equity of the Corporation. This description of risks does not include all possible risks, and there may be other risks of which the Corporation is not currently aware.

OWNERSHIP OF COMMON AND PREFERRED SHARES

The share price of Power Financial and its subsidiaries may be volatile and subject to fluctuations in response to numerous factors beyond Power Financial's and such subsidiaries' control. Economic conditions may adversely affect Power Financial and its subsidiaries, including fluctuations in foreign exchange, inflation and interest rates, as well as monetary policies, business investment and the health of capital markets in Canada, the United States and Europe. In recent years, financial markets have experienced significant price and volume fluctuations that have affected the market prices of equity securities held by the Corporation and its subsidiaries and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. These factors may cause decreases in asset values that are deemed to be significant or prolonged, which may result in impairment charges. In periods of increased levels of volatility and related market turmoil, Power Financial subsidiaries' operations could be adversely impacted and the trading price of Power Financial's securities may be adversely affected.

LAWS, RULES AND REGULATIONS

There are many laws, governmental rules and regulations and stock exchange rules that apply to the Corporation. Changes in these laws, rules and regulations, or their interpretation by governmental agencies or the courts, could have a significant effect on the business and the financial condition of the Corporation. The Corporation, in addition to complying with these laws, rules and regulations, must also monitor them closely so that changes therein are taken into account in the management of its activities.

FINANCIAL INSTRUMENTS RISK

Power Financial has established policies, guidelines and procedures designed to identify, measure, monitor and mitigate material risks associated with financial instruments. The key risks related to financial instruments are liquidity risk, credit risk and market risk.

- Liquidity risk is the risk that the Corporation will not be able to meet all cash outflow obligations as they come due.
- Credit risk is the potential for financial loss to the Corporation if a counterparty in a transaction fails to meet its obligations.
- Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risks: currency risk, interest rate risk and equity price risk.
  - Currency risk relates to the Corporation operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.
  - Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.
  - Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets.

Liquidity Risk

As a holding company, Power Financial's ability to meet its obligations, including payment of interest, other operating expenses and dividends, and to complete current or desirable future enhancement opportunities or acquisitions generally depends upon dividends from its principal subsidiaries (Lifeco and IGM) and Pargesa, and its ability to raise additional capital. Dividends to shareholders of Power Financial will be dependent on the operating performance, profitability, financial position and creditworthiness of the subsidiaries of Power Financial and on their ability to pay dividends to Power Financial. The ability of Lifeco and IGM, which are also holding companies, to meet their obligations and pay dividends is dependent upon receipt of dividends from their subsidiaries. The payment of interest and dividends by Lifeco's principal subsidiaries is subject to restrictions set out in relevant corporate and insurance laws and regulations, which require that solvency and capital ratios be maintained. The payment of interest and dividends by IGM's principal subsidiaries is subject to corporate laws and regulations which require that solvency standards be maintained. In addition, certain subsidiaries of IGM must also comply with capital and liquidity requirements established by regulatory authorities.

Power Financial regularly reviews its liquidity requirements and seeks to maintain a sufficient level of liquidity to meet its operating expenses, financing charges and payment of preferred share dividends for a reasonable period of time. If required, the ability of Power Financial to arrange additional financing in the future will depend in part upon prevailing market conditions as well as the business performance of Power Financial and its subsidiaries. Although the Corporation has been able to access capital on financial markets in the past, there can be no assurance this will be possible in the future. The inability of Power Financial to access sufficient capital on acceptable terms could have a material adverse effect on Power Financial's business, prospects, dividend paying capability and financial condition, and further enhancement opportunities or acquisitions.

Power Financial's management of liquidity risk has not changed materially since December 31, 2014.

Credit Risk

Fixed income securities and derivatives are subject to credit risk. Power Financial mitigates credit risk on its fixed income securities by adhering to an investment policy that establishes guidelines which provide exposure limits by defining admissible securities, minimum rating and concentration limits.

Fixed income securities, which are included in investments and in cash and cash equivalents, consist primarily of bonds, bankers' acceptances and highly liquid temporary deposits with Canadian chartered banks and banks in jurisdictions where Power Financial operates as well as bonds and short-term securities of, or guaranteed by, the Canadian or U.S. governments. Power Financial regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

Derivatives continue to be utilized on a basis consistent with the risk management guidelines of Power Financial and are monitored by the Corporation for effectiveness as economic hedges even if specific hedge accounting requirements are not met. Power Financial regularly reviews the credit ratings of derivative financial instrument counterparties. Derivative contracts are over-the-counter with counterparties that are highly rated financial institutions.

Power Financial's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and derivatives have not changed materially since December 31, 2014.

Market Risk

Power Financial's financial instruments are comprised of cash and cash equivalents, fixed income securities and debentures.

a) *Currency risk*

In managing its own cash and cash equivalents and fixed income securities, Power Financial may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Financial may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at December 31, 2015, approximately 88% of Power Financial's cash and cash equivalents and fixed income securities were denominated in Canadian dollars.

Power Financial is exposed through Parjointco to foreign exchange risk as a result of Parjointco's investment in Pargesa, a company whose functional currency is the Swiss franc. Foreign currency translation gains and losses from Pargesa are recorded in other comprehensive income.

b) *Interest rate risk*

Power Financial's financial instruments do not have significant exposure to interest rate risk.

c) *Equity price risk*

Power Financial's financial instruments do not have significant exposure to equity price risk.

Power Financial's management of financial instruments risk has not changed materially since December 31, 2014. For a further discussion of Power Financial's financial instruments risk management, refer to Note 21 to the Corporation's 2015 Consolidated Financial Statements. Parts B and C of this MD&A describe Lifeco's and IGM's management of financial instruments risk, which have not changed materially since December 31, 2014.

FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments held by the Corporation and its subsidiaries include investments, derivative financial instruments, debentures and other debt instruments, investment contract liabilities and certain other assets and liabilities.

Fair value represents the amount that would be exchanged in an arm's-length transaction between willing parties and is best evidenced by a quoted market price, if one exists. Fair values represent management's estimates and are generally calculated using market information and at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment.

The Corporation's financial assets and financial liabilities recorded at fair value and those for which fair value is disclosed have been categorized based upon the following fair value hierarchy:

- Level 1 inputs utilize observable, unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access.
- Level 2 inputs utilize other-than-quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement falls has been determined based on the lowest level input that is significant to the fair value measurement. The Corporation's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the asset or liability.

The following table presents the carrying amounts and fair value of the Corporation and its subsidiaries' financial assets and financial liabilities. The table distinguishes between those financial instruments recorded at fair value and those recorded at amortized cost. The table excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value. Items excluded are: cash and cash equivalents, dividends, interest and accounts receivable, loans to policyholders, certain other financial assets, accounts payable, dividends and interest payable and certain other financial liabilities.

As at December 31		**2015**		2014
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Financial assets recorded at fair value				
Bonds				
Fair value through profit or loss	**86,460**	**86,460**	79,957	79,957
Available for sale	**12,014**	**12,014**	10,501	10,501
Mortgage loans				
Fair value through profit or loss	**384**	**384**	366	366
Shares				
Fair value through profit or loss	**6,692**	**6,692**	6,697	6,697
Available for sale	**63**	**63**	60	60
Investment properties	**5,237**	**5,237**	4,613	4,613
Derivative instruments	**520**	**520**	693	693
Other assets	**599**	**599**	421	421
	111,969	**111,969**	103,308	103,308
Financial assets recorded at amortized cost				
Bonds				
Loans and receivables	**16,905**	**18,253**	13,178	14,659
Mortgage loans				
Loans and receivables	**29,029**	**30,712**	27,199	29,016
Shares				
Available for sale [1]	**534**	**534**	560	560
	46,468	**49,499**	40,937	44,235
Total financial assets	**158,437**	**161,468**	144,245	147,543
Financial liabilities				
Financial liabilities recorded at fair value				
Investment contract liabilities	**2,180**	**2,180**	857	857
Derivative instruments	**2,682**	**2,682**	1,225	1,225
Other liabilities	**4**	**4**	16	16
	4,866	**4,866**	2,098	2,098
Financial liabilities recorded at amortized cost				
Obligations to securitization entities	**7,092**	**7,272**	6,754	6,859
Debentures and other debt instruments	**6,927**	**7,964**	6,887	8,065
Capital trust debentures	**161**	**215**	162	220
Deposits and certificates	**310**	**312**	223	225
	14,490	**15,763**	14,026	15,369
Total financial liabilities	**19,356**	**20,629**	16,124	17,467

[1] Fair value of certain shares available for sale cannot be reliably measured, therefore these investments are recorded at cost.

Refer to Note 26 to the Corporation's 2015 Consolidated Financial Statements for additional disclosure of the Corporation's fair value measurement of financial instruments at December 31, 2015.

DERIVATIVE FINANCIAL INSTRUMENTS

In the course of their activities, the Corporation and its subsidiaries use derivative financial instruments. When using such derivatives, they only act as limited end-users and not as market-makers in such derivatives.

The use of derivatives is monitored and reviewed on a regular basis by senior management of the Corporation and by senior management of its subsidiaries. The Corporation and its subsidiaries have each established operating policies, guidelines and procedures relating to the use of derivative financial instruments, which in particular focus on:

- prohibiting the use of derivative instruments for speculative purposes;
- documenting transactions and ensuring their consistency with risk management policies;
- demonstrating the effectiveness of the hedging relationships; and
- monitoring the hedging relationships.

There were no major changes to the Corporation and its subsidiaries' policies and procedures with respect to the use of derivative instruments in the twelve-month period ended December 31, 2015. The following table provides a summary of the Corporation and its subsidiaries' derivatives portfolio:

	December 31, 2015			December 31, 2014		
	Notional	Maximum credit risk	Total fair value	Notional	Maximum credit risk	Total fair value
Power Financial	**11**	**1**	**1**	8	1	1
Lifeco	**16,712**	**461**	**(2,163)**	15,460	652	(543)
IGM	**2,702**	**58**	**–**	2,621	40	10
	19,425	**520**	**(2,162)**	18,089	693	(532)

During the twelve-month period ended December 31, 2015, there was an increase of $1.3 billion in the notional amount outstanding and a decrease in the maximum credit risk that represents the market value of those instruments, which are in a gain position, primarily as a result of regular hedging activities.

Refer to Parts B and C of this MD&A for information on the types of derivative financial instruments used by Lifeco and IGM, respectively.

See Note 25 to the Corporation's 2015 Consolidated Financial Statements for additional information.

OFF-BALANCE SHEET ARRANGEMENTS

GUARANTEES

In the normal course of their operations, the Corporation and its subsidiaries may enter into certain agreements, the nature of which precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation or subsidiary could be required to pay third parties, as some of these agreements do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined.

LETTERS OF CREDIT

In the normal course of Lifeco's reinsurance business, Lifeco provides letters of credit to other parties or beneficiaries. A beneficiary will typically hold a letter of credit as collateral in order to secure statutory credit for insurance and investment contract liabilities ceded to or amounts due from Lifeco. Lifeco may be required to seek collateral alternatives if it is unable to renew existing letters of credit on maturity. (See also Part B of this MD&A and Note 31 to the Corporation's 2015 Consolidated Financial Statements.)

CONTINGENT LIABILITIES

The Corporation and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Corporation. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Corporation.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

	Payments due by period			
	Less than 1 year	1–5 years	More than 5 years	Total
Debentures and other debt instruments [1]	467	1,525	4,957	6,949
Capital trust debentures	–	–	150	150
Deposits and certificates	299	8	3	310
Obligations to securitization entities	1,235	5,799	58	7,092
Operating leases [2]	144	356	116	616
Purchase obligations [3]	85	135	7	227
Pension contributions [4]	229	–	–	229
Contractual commitments [5]	203	–	–	203
Total	2,662	7,823	5,291	15,776
Power Financial [6]	6	3	251	260
Lifeco	1,069	1,414	4,183	6,666
IGM	1,587	6,406	857	8,850
Total	2,662	7,823	5,291	15,776

[1] Please refer to Note 14 to the Corporation's 2015 Consolidated Financial Statements for further information.

[2] Includes office space and equipment used in the normal course of business. Lease payments are charged to operations over the period of use. Subsequent to year-end, Lifeco's subsidiaries signed an office lease for 15 years commencing in 2018, for an additional commitment of $271 million over the period of the lease.

[3] Purchase obligations are commitments of Lifeco to acquire goods and services, primarily related to information services.

[4] Pension contributions include post-retirement benefits and are subject to change, as contribution decisions are affected by many factors including market performance, regulatory requirements and management's ability to change funding policy. Funding estimates beyond one year are excluded due to variability on the assumptions required to project the timing of future contributions.

[5] Represents commitments by Lifeco. These contractual commitments are essentially commitments to investment transactions made in the normal course of operations, in accordance with its policies and guidelines, which are to be disbursed upon fulfilment of certain contract conditions.

[6] Includes debentures of the Corporation of $250 million.

INCOME TAXES (NON-CONSOLIDATED BASIS)

The Corporation had, at December 31, 2015, non-capital losses of $76 million available to reduce future taxable income (including capital gains). These losses expire in 2028 and 2029 and are net of losses that will be transferred to IGM under a tax loss consolidation program. In addition, the Corporation has capital losses of $81 million that can be used indefinitely to reduce future capital gains. See also "Transactions with Related Parties" below.

TRANSACTIONS WITH RELATED PARTIES

Power Financial has a Related Party and Conduct Review Committee composed entirely of Directors who are independent of management and independent of the Corporation's controlling shareholder. The mandate of this Committee is to review proposed transactions with related parties of the Corporation, including its controlling shareholder, and to approve only those transactions that it deems appropriate and that are done at market terms and conditions.

In the normal course of business, Great-West Life enters into various transactions with related companies which include providing group insurance benefits to other companies within the Power Financial group of companies. Such transactions are at market terms and conditions. These transactions are reviewed by the appropriate related party and conduct review committee.

Lifeco provides reinsurance, asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of Power Financial, and Lifeco and its subsidiaries. These transactions are at market terms and conditions and are reviewed by the appropriate related party and conduct review committee.

IGM enters into transactions with subsidiaries of Lifeco. These transactions are in the normal course of operations and include (i) providing certain administrative services, (ii) distributing insurance products and (iii) the sale of residential mortgages to Great-West Life and London Life. These transactions are at market terms and conditions.

On November 14, 2013, the Board of Directors approved a tax loss consolidation program with IGM. This program allows Power Financial to generate sufficient taxable income to use its non-capital losses which would otherwise expire, while IGM receives tax deductions which are used to reduce its taxable income.

As of December 31, 2015, under this program, the Corporation owned $2 billion of 4.50% secured debentures of IGM. These debentures represent the consideration obtained from the sale to IGM of $2 billion of 4.51% preferred shares issued to Power Financial from a wholly owned subsidiary. The Corporation has legally enforceable rights to settle these financial instruments on a net basis and the Corporation intends to exercise these rights.

See Note 29 to the Corporation's 2015 Consolidated Financial Statements for more information.

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the preparation of the financial statements, management of the Corporation and the managements of its subsidiaries – Lifeco and IGM – are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings and related disclosures. Key sources of estimation uncertainty and areas where significant judgments made by the management of the Corporation and the managements of its subsidiaries are: the entities to be consolidated, insurance and investment contract liabilities, fair value measurements, investment impairment, goodwill and intangible assets (including deferred selling commissions), income taxes and employee future benefits. These are described in the notes to the Corporation's 2015 Consolidated Financial Statements.

CONSOLIDATION

Management of the Corporation consolidates all subsidiaries and entities in which it has determined that the Corporation has control. Control is evaluated according to the ability of the Corporation to direct the relevant activities of the subsidiary or other structured entity in order to derive variable returns. Management of the Corporation and each of its subsidiaries exercise judgment in determining whether control exists. Judgment is exercised in the evaluation of the variable returns and in determining the extent to which the Corporation and its subsidiaries have the ability to exercise the power to generate variable returns.

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Insurance and investment contract liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with Lifeco. The Appointed Actuaries of Lifeco's subsidiaries are responsible for determining the amount of the liabilities to make appropriate provisions for Lifeco's obligations to policyholders. The Appointed Actuaries determine the insurance and investment contract liabilities using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation of insurance contracts uses the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality and morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Investment contract liabilities are measured at fair value determined using discounted cash flows utilizing the yield curves of financial instruments with similar cash flow characteristics.

Additional details regarding these estimates can be found in Note 12 to the Corporation's 2015 Consolidated Financial Statements. See also Part B of this MD&A.

FAIR VALUE MEASUREMENT

The carrying values of financial assets necessarily reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods that the Corporation and its subsidiaries rely upon.

Fair value movement on the assets supporting insurance contract liabilities is a major factor in the movement of insurance contract liabilities. Changes in the fair value of bonds designated or classified as fair value through profit or loss that support insurance contract liabilities are largely offset by corresponding changes in the fair value of liabilities, except when the bond has been deemed impaired.

The following is a description of the methodologies used to determine fair value.

a) *Bonds at fair value through profit or loss and available for sale*

Fair values for bonds recorded at fair value through profit or loss or available for sale are determined with reference to quoted market bid prices primarily provided by third-party independent pricing sources. The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Corporation and its subsidiaries obtain quoted prices in active markets, when available, for identical assets at the balance sheet dates to measure bonds at fair value in its fair value through profit or loss and available-for-sale portfolios. Where prices are not quoted in a normally active market, fair values are determined by valuation models.

The Corporation and its subsidiaries estimate the fair value of bonds not traded in active markets by referring to actively traded securities with similar attributes, dealer quotations, matrix pricing methodology, discounted cash flow analyses and/or internal valuation models. This methodology considers such factors as the issuer's industry, the security's rating, term, coupon rate and position in the capital structure of the issuer, as well as yield curves, credit curves, prepayment rates and other relevant factors. For bonds that are not traded in active markets, valuations are adjusted to reflect illiquidity, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

b) *Shares at fair value through profit or loss and available for sale*

Fair values for publicly traded shares are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for shares for which there is no active market are determined by discounting expected future cash flows. The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Corporation and its subsidiaries obtain quoted prices in active markets, when available, for identical assets at the balance sheet dates to measure shares at fair value in its fair value through profit or loss and available-for-sale portfolios.

c) *Mortgage loans and bonds classified as loans and receivables*

The fair values disclosed for bonds and mortgage loans classified as loans and receivables are determined by discounting expected future cash flows using current market rates. Valuation inputs typically include benchmark yields and risk-adjusted spreads based on current lending activities and market activity.

d) *Investment properties*

Fair values for investment properties are determined using independent qualified appraisal services and include any adjustments by Lifeco management for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals. The determination of the fair value of investment property requires the use of estimates including future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market conditions. Investment properties under construction are valued at fair value if such values can be reliably determined; otherwise, they are recorded at cost.

INVESTMENT IMPAIRMENT

Investments are reviewed regularly on an individual basis at the end of each reporting period to determine whether there is any objective evidence that the investment is impaired. The Corporation and its subsidiaries consider various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults, and delinquency in payments of interest or principal.

Investments are deemed to be impaired when there is no longer reasonable assurance of collection. The fair value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors, including the remaining term to maturity and liquidity of the asset. However, market price is taken into consideration when evaluating impairment.

For impaired mortgage loans, and bonds classified as loans and receivables, provisions are established or impairments recorded to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value. For impaired available-for-sale bonds, the accumulated loss recorded in other comprehensive income is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

Impairment losses on available-for-sale shares are recorded if the loss is significant or prolonged and subsequent losses are recorded in net earnings.

GOODWILL AND INDEFINITE LIFE INTANGIBLES IMPAIRMENT TESTING

Goodwill and indefinite life intangible assets are tested for impairment annually or more frequently if events indicate that impairment may have occurred. Indefinite life intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal.

Goodwill and indefinite life intangible assets have been allocated to cash generating units or to groups of cash generating units (CGU), representing the lowest level that the assets are monitored for internal reporting purposes. Goodwill and indefinite life intangible assets are tested for impairment by comparing the carrying value of the CGU to the recoverable amount of the CGU to which the goodwill and indefinite life intangible assets have been allocated.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost of disposal or value in use, which is calculated using the present value of estimated future cash flows expected to be generated.

DEFERRED SELLING COMMISSIONS

Commissions paid by IGM on the sale of certain mutual fund products are deferred and amortized over a maximum period of seven years. IGM regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by IGM to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value. At December 31, 2015, there were no indications of impairment to deferred selling commissions.

PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The Corporation and its subsidiaries maintain funded defined benefit pension plans for certain employees and advisors, unfunded supplementary employee retirement plans for certain employees, and unfunded post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependants. The Corporation's subsidiaries also maintain defined contribution pension plans for eligible employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average earnings. Expenses for the defined benefit plans are actuarially determined using the projected unit credit method prorated on service based upon management of the Corporation and its subsidiaries' assumptions about discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. Any changes in these assumptions will impact the carrying amount of defined benefit obligations. The Corporation and its subsidiaries' accrued benefit liability in respect of defined benefit plans is calculated separately for each plan by discounting the amount of the benefit that employees have earned in return for their service in current and prior periods and deducting the fair value of any plan assets.

- The Corporation and its subsidiaries determine the net interest component of the pension expense for the period by applying the discount rate used to measure the accrued benefit liability at the beginning of the annual period to the net accrued benefit liability. The discount rate used to value liabilities is determined using a yield curve of AA corporate debt securities.
- If the plan benefits are changed, or a plan is curtailed, any past service costs or curtailment gains or losses are recognized immediately in net earnings.
- Net interest costs, current service costs, past service costs and curtailment gains or losses are included in operating and administrative expenses.
- Remeasurements arising from defined benefit plans represent actuarial gains and losses, and the actual return on plan assets, less interest calculated at the discount rate and changes in the asset ceiling. Remeasurements are recognized immediately through other comprehensive income and are not reclassified to net earnings.
- The accrued benefit asset (liability) represents the plan surplus (deficit).
- Payments to the defined contribution plans are expensed as incurred.

INCOME TAXES

Current income tax

Current income tax is based on taxable income for the year. Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities using the rates that have been enacted or substantively enacted at the balance sheet date. Current tax assets and current tax liabilities are offset, if a legally enforceable right exists to offset the recognized amounts and the entity intends either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

A provision for tax uncertainties which meets the probable threshold for recognition is measured based on the probability weighted average approach.

Deferred income tax

Deferred income tax is the tax expected to be payable or recoverable on differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income and on unused tax attributes, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences and unused tax attributes can be utilized.

Deferred tax assets and liabilities are measured at the tax rates expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to net current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in the subsidiaries, jointly controlled corporations and associates, except where the group controls the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

CHANGES IN ACCOUNTING POLICIES

There were no changes to the Corporation’s accounting policies for the year ended December 31, 2015.

FUTURE ACCOUNTING CHANGES

The Corporation and its subsidiaries continuously monitor the potential changes proposed by the International Accounting Standards Board (IASB) and analyze the effect that changes in the standards may have on their consolidated financial statements when they become effective.

IFRS 4 – INSURANCE CONTRACTS

In June 2013, the IASB issued a revised IFRS 4, *Insurance Contract*s exposure draft proposing changes to the accounting standard for insurance contracts. The IASB continues to deliberate the proposals in this exposure draft. The proposed standard differs significantly from Lifeco's current accounting and actuarial practices under the Canadian Asset Liability Method (CALM) and is expected to produce more volatile financial results.

Lifeco has disclosed that it is actively monitoring developments in this area and that it will continue to measure insurance contract liabilities under current accounting and actuarial policies, including CALM, until a new IFRS for insurance contract measurement is issued and effective.

IFRS 9 – FINANCIAL INSTRUMENTS

The IASB issued IFRS 9, *Financial Instruments,* which replaces IAS 39, *Financial Instruments: Recognition and Measurement*, the current standard for accounting for financial instruments. The standard was completed in three separate phases:

- Classification and measurement: this phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.
- Impairment methodology: this phase replaces the current incurred loss model for impairment of financial assets with an expected loss model.
- Hedge accounting: this phase replaces the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities.

In December 2015, the IASB published an exposure draft with proposed amendments to IFRS 4, *Insurance Contracts* to alleviate the temporary consequences of the different effective dates with IFRS 9. Companies whose business model is to predominantly issue insurance contracts are allowed the option to defer the effective date of IFRS 9 until the earliest of the mandatory effective date of IFRS 4 or January 1, 2021. For companies that do not issue insurance contracts, the effective date of January 1, 2018 should remain. The Corporation and its subsidiaries are evaluating the impact of the adoption of this standard.

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

The IASB issued IFRS 15, *Revenue from Contracts with Customers,* which provides a single model for entities to use in accounting for revenue arising from contracts with customers. The model requires an entity to recognize revenue as the goods or services are transferred to customers in an amount that reflects the expected consideration. The revenue recognition requirements in IFRS 15 do not apply to the revenue arising from insurance contracts, leases and financial instruments.

The standard will be effective January 1, 2018. The Corporation and its subsidiaries are evaluating the impact of the adoption of this standard.

IFRS 16 – LEASES

In January 2016, the IASB issued IFRS 16, *Leases,* which requires a lessee to recognize a right-of-use asset representing its right to use the underlying leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. A lessee recognizes the related expense as depreciation on the right-of-use asset and interest on the lease liability. Short-term (less than 12 months) and low-value asset leases are exempt from these requirements.

The standard will be effective January 1, 2019. The Corporation and its subsidiaries are evaluating the impact of the adoption of this standard.

DISCLOSURE CONTROLS AND PROCEDURES

Based on their evaluations as at December 31, 2015, the Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective as at December 31, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Corporation's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with IFRS. The Corporation's management is responsible for establishing and maintaining effective internal control over financial reporting. All internal control systems have inherent limitations and may become ineffective because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Corporation's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Corporation's internal control over financial reporting as at December 31, 2015, based on the Internal Control – Integrated Framework (COSO 2013 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Corporation's internal control over financial reporting was effective as at December 31, 2015.

There have been no changes in the Corporation's internal control over financial reporting during the three-month period ended December 31, 2015 which have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

SELECTED ANNUAL INFORMATION

For the years ended December 31	**2015**	2014	2013
Total revenue	**36,512**	41,775	28,830
Operating earnings (attributable to common shareholders) [1]	**2,241**	2,105	1,708
per share – basic	**3.14**	2.96	2.40
Net earnings (attributable to common shareholders)	**2,319**	2,136	1,896
per share – basic	**3.25**	3.00	2.67
per share – diluted	**3.24**	3.00	2.63
Consolidated assets	**417,630**	373,843	341,682
Total financial liabilities	**22,327**	18,800	17,562
Debentures and other debt instruments	**6,927**	6,887	7,275
Shareholders' equity	**19,550**	17,019	15,993
Book value per common share	**23.79**	20.29	18.61
Number of common shares outstanding [millions]	**713.2**	711.7	711.2
Dividends per share [declared]			
Common shares	**1.4900**	1.4000	1.4000
First preferred shares			
Series A [2]	**0.4887**	0.5250	0.5250
Series D	**1.3750**	1.3750	1.3750
Series E	**1.3125**	1.3125	1.3125
Series F	**1.4750**	1.4750	1.4750
Series H	**1.4375**	1.4375	1.4375
Series I	**1.5000**	1.5000	1.5000
Series K	**1.2375**	1.2375	1.2375
Series L	**1.2750**	1.2750	1.2750
Series O	**1.4500**	1.4500	1.4500
Series P [3]	**1.1000**	1.1000	1.1000
Series R	**1.3750**	1.3750	1.3750
Series S [4]	**1.2000**	1.2000	1.1006
Series T [5]	**1.0500**	1.1902	–

[1] Operating earnings and operating earnings per share are non-IFRS financial measures. For a definition of these non-IFRS financial measures, please refer to the "Basis of Presentation – Non-IFRS Financial Measures and Presentation" section of this MD&A.

[2] The Series A First Preferred Shares are entitled to a quarterly cumulative dividend at a floating rate equal to one quarter of 70% of the average prime rates quoted by two major Canadian chartered banks.

[3] On February 1, 2016, 2,234,515 of its outstanding 11,200,000 Non-Cumulative 5-year Rate Reset First Preferred Shares, Series P were converted, on a one-for-one basis, into Non-Cumulative Floating Rate First Preferred Shares, Series Q. The Series Q First Preferred shares are entitled to an annual non-cumulative dividend, payable quarterly at a floating rate equal to the 3-month Government of Canada Treasury Bill rate plus 1.60%. The dividend rate for the remaining 8,965,485 Series P shares was reset to an annual fixed rate of 2.31% or $0.144125 per share in cash dividends payable quarterly.

[4] Issued in February 2013. The first dividend payment was made in April 30, 2013, in the amount of $0.2006 per share.

[5] Issued in December 2013. The first dividend payment was made on April 30, 2014 in the amount of $0.4027 per share.

SUMMARY OF QUARTERLY RESULTS

				2015				2014
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue [1]	**8,961**	9,281	4,901	13,369	11,341	9,134	10,716	10,584
Operating earnings (attributable to common shareholders) [2]	**521**	596	559	565	525	595	545	440
per share – basic [2]	**0.73**	0.83	0.79	0.79	0.74	0.83	0.77	0.62
Other items (non-operating earnings) [2, 3]	**7**	6	57	8	(19)	–	23	27
per share – basic [2]	**0.01**	0.01	0.08	0.01	(0.03)	–	0.03	0.04
Net earnings (attributable to common shareholders)	**528**	602	616	573	506	595	568	467
per share – basic	**0.74**	0.84	0.87	0.80	0.71	0.83	0.80	0.66
per share – diluted	**0.74**	0.84	0.86	0.80	0.71	0.83	0.80	0.66

[1] Revenue in the second quarter of 2015 is lower due to a decrease in the value of Lifeco's bond portfolio resulting from increasing interest rates.

[2] Operating earnings and operating earnings per share attributable to common shareholders, and other items and other items per share are non-IFRS financial measures. For a definition of these non-IFRS financial measures, please refer to the "Basis of Presentation – Non-IFRS Financial Measures and Presentation" section in this MD&A.

[3] The Corporation's share of IGM and Pargesa's Other items (non-operating earnings) are as follows:

				2015				2014
Other items	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
IGM								
Restructuring and other charges	**(15)**	–	–	–	–	–	(8)	–
Distribution to clients	**–**	–	–	–	(36)	–	–	–
Pargesa								
Total – Gain on partial disposal	**48**	–	–	9	25	2	17	26
Suez Environnement – Gain on exchange	**–**	–	2	2	–	–	17	–
LafargeHolcim – Mark-to-market gains and reversal of impairment charges related to the merger	**–**	8	80	–	–	–	–	–
Lafarge – Impairment and restructuring charges	**–**	–	(23)	–	–	–	–	–
Imerys – Impairment and restructuring charges	**(26)**	–	–	–	–	–	–	–
Other (charge) income	**–**	(2)	(2)	(3)	(8)	(2)	(3)	1
	7	6	57	8	(19)	–	23	27

POWER FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

[in millions of Canadian dollars]	**December 31, 2015**	December 31, 2014
Assets		
Cash and cash equivalents [Note 4]	**4,188**	3,989
Investments [Note 5]		
Bonds	**115,379**	103,636
Mortgage loans	**29,413**	27,565
Shares	**7,289**	7,317
Investment properties	**5,237**	4,613
Loans to policyholders	**8,694**	7,711
	166,012	150,842
Funds held by ceding insurers [Note 6]	**15,512**	12,154
Reinsurance assets [Note 12]	**5,131**	5,151
Investments in jointly controlled corporations and associates [Note 7]	**2,905**	2,677
Owner-occupied properties and capital assets [Note 8]	**1,106**	986
Derivative financial instruments [Note 25]	**520**	693
Other assets [Note 9]	**6,908**	6,032
Deferred tax assets [Note 16]	**1,961**	1,707
Intangible assets [Note 10]	**5,983**	5,497
Goodwill [Note 10]	**9,210**	9,149
Investments on account of segregated fund policyholders [Note 11]	**198,194**	174,966
Total assets	**417,630**	373,843
Liabilities		
Insurance contract liabilities [Note 12]	**158,492**	145,198
Investment contract liabilities [Note 12]	**2,180**	857
Obligation to securitization entities [Note 13]	**7,092**	6,754
Debentures and other debt instruments [Note 14]	**6,927**	6,887
Derivative financial instruments [Note 25]	**2,682**	1,225
Other liabilities [Note 15]	**7,686**	7,293
Deferred tax liabilities [Note 16]	**1,975**	1,761
Insurance and investment contracts on account of segregated fund policyholders [Note 11]	**198,194**	174,966
Total liabilities	**385,228**	344,941
Equity		
Stated capital [Note 17]		
Perpetual preferred shares	**2,580**	2,580
Common shares	**804**	743
Retained earnings	**14,283**	13,164
Reserves	**1,883**	532
Total shareholders' equity	**19,550**	17,019
Non-controlling interests [Note 19]	**12,852**	11,883
Total equity	**32,402**	28,902
Total liabilities and equity	**417,630**	373,843

Approved by the Board of Directors

Signed,
Raymond Royer
Director

Signed,
R. Jeffrey Orr
Director

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31 [in millions of Canadian dollars, except per share amounts]	**2015**	2014
Revenues		
Premium income		
Gross premiums written	**28,129**	24,686
Ceded premiums	**(3,628)**	(3,464)
Premium income, net	**24,501**	21,222
Net investment income [Note 5]		
Regular net investment income	**6,332**	6,038
Change in fair value through profit or loss	**(2,013)**	7,525
Investment income, net	**4,319**	13,563
Fee income	**7,692**	6,990
Total revenues	**36,512**	41,775
Expenses		
Policyholder benefits		
Insurance and investment contracts		
Gross	**22,553**	19,363
Ceded	**(2,000)**	(1,928)
Total net policyholder benefits	**20,553**	17,435
Policyholder dividends and experience refunds	**1,477**	1,496
Change in insurance and investment contract liabilities	**812**	10,229
Total paid or credited to policyholders	**22,842**	29,160
Commissions	**3,133**	2,901
Operating and administrative expenses [Note 22]	**5,883**	5,162
Financing charges [Note 23]	**413**	413
Total expenses	**32,271**	37,636
Earnings before investments in jointly controlled corporations and associates, and income taxes	**4,241**	4,139
Share of earnings of investments in jointly controlled corporations and associates [Note 7]	**224**	211
Earnings before income taxes	**4,465**	4,350
Income taxes [Note 16]	**679**	834
Net earnings	**3,786**	3,516
Attributable to		
Non-controlling interests [Note 19]	**1,337**	1,248
Perpetual preferred shareholders	**130**	132
Common shareholders	**2,319**	2,136
	3,786	3,516
Earnings per common share [Note 28]		
Net earnings attributable to common shareholders		
– Basic	**3.25**	3.00
– Diluted	**3.24**	3.00

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31 [in millions of Canadian dollars]	2015	2014
Net earnings	**3,786**	3,516
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net earnings		
Net unrealized gains (losses) on available-for-sale assets		
Unrealized gains (losses)	**(15)**	313
Income tax (expense) benefit	**6**	(62)
Realized (gains) losses transferred to net earnings	**(106)**	(52)
Income tax expense (benefit)	**18**	10
	(97)	209
Net unrealized gains (losses) on cash flow hedges		
Unrealized gains (losses)	**(253)**	(110)
Income tax (expense) benefit	**95**	42
Realized (gains) losses transferred to net earnings	**2**	2
Income tax expense (benefit)	**(1)**	(1)
	(157)	(67)
Net unrealized foreign exchange gains (losses) on translation of foreign operations		
Unrealized gains (losses) on translation arising during the year	**2,038**	543
Unrealized gains (losses) on euro debt designated as hedge of net investments in foreign operations	**(50)**	35
Income tax (expense) benefit	**9**	–
	1,997	578
Share of other comprehensive income (losses) of jointly controlled corporations and associates	**45**	(86)
Total – items that may be reclassified	**1,788**	634
Items that will not be reclassified subsequently to net earnings		
Actuarial gains (losses) on benefit plans [Note 24]	**194**	(601)
Income tax (expense) benefit	**(36)**	150
Share of other comprehensive income (losses) of jointly controlled corporations and associates	**1**	(31)
Total – items that will not be reclassified	**159**	(482)
Other comprehensive income	**1,947**	152
Total comprehensive income	**5,733**	3,668
Attributable to		
Non-controlling interests	**1,953**	1,347
Perpetual preferred shareholders	**130**	132
Common shareholders	**3,650**	2,189
	5,733	3,668

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2015 [in millions of Canadian dollars]	Stated capital			Reserves				
	Perpetual preferred shares	Common shares	Retained earnings	Share-based compensation	Other comprehensive income [Note 27]	Total	Non-controlling interests	Total equity
Balance, beginning of year	2,580	743	13,164	142	390	532	11,883	28,902
Net earnings	–	–	2,449	–	–	–	1,337	3,786
Other comprehensive income	–	–	–	–	1,331	1,331	616	1,947
Total comprehensive income	–	–	2,449	–	1,331	1,331	1,953	5,733
Dividends to shareholders								
Perpetual preferred shares	–	–	(130)	–	–	–	–	(130)
Common shares	–	–	(1,063)	–	–	–	–	(1,063)
Dividends to non-controlling interests	–	–	–	–	–	–	(711)	(711)
Share-based compensation	–	–	–	48	–	48	19	67
Stock options exercised	–	61	–	(48)	–	(48)	36	49
Effects of changes in ownership of subsidiaries, capital and other	–	–	(137)	–	20	20	(328)	(445)
Balance, end of year	2,580	804	14,283	142	1,741	1,883	12,852	32,402

For the year ended December 31, 2014 [in millions of Canadian dollars]	Stated capital			Reserves				
	Perpetual preferred shares	Common shares	Retained earnings	Share-based compensation	Other comprehensive income [Note 27]	Total	Non-controlling interests	Total equity
Balance, beginning of year	2,755	721	12,085	95	337	432	10,941	26,934
Net earnings	–	–	2,268	–	–	–	1,248	3,516
Other comprehensive income	–	–	–	–	53	53	99	152
Total comprehensive income	–	–	2,268	–	53	53	1,347	3,668
Redemption of perpetual preferred shares	(175)	–	–	–	–	–	–	(175)
Dividends to shareholders								
Perpetual preferred shares	–	–	(132)	–	–	–	–	(132)
Common shares	–	–	(996)	–	–	–	–	(996)
Dividends to non-controlling interests	–	–	–	–	–	–	(693)	(693)
Share-based compensation	–	–	–	35	–	35	15	50
Stock options exercised	–	22	–	(11)	–	(11)	6	17
Effects of changes in ownership of subsidiaries, capital and other	–	–	(61)	23	–	23	267	229
Balance, end of year	2,580	743	13,164	142	390	532	11,883	28,902

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 [in millions of Canadian dollars]	2015	2014
Operating activities		
Earnings before income taxes	**4,465**	4,350
Income tax paid, net of refunds received	**(543)**	(660)
Adjusting items		
Change in insurance and investment contract liabilities	**(1,088)**	9,726
Change in funds held by ceding insurers	**821**	428
Change in funds held under reinsurance contracts	**28**	(34)
Change in reinsurance assets	**367**	(160)
Change in fair value through profit or loss	**2,013**	(7,525)
Other	**(367)**	11
	5,696	6,136
Financing activities		
Dividends paid		
By subsidiaries to non-controlling interests	**(715)**	(691)
Perpetual preferred shares	**(130)**	(132)
Common shares	**(1,046)**	(996)
	(1,891)	(1,819)
Issue of common shares by the Corporation [Note 17]	**49**	17
Redemption of preferred shares by the Corporation	**–**	(175)
Issue of common shares by subsidiaries	**113**	44
Issue of preferred shares by subsidiaries	**–**	200
Repurchase of common shares by subsidiaries	**(509)**	(175)
Changes in debt instruments	**(137)**	(446)
Change in obligations to securitization entities	**336**	1,185
Other	**87**	33
	(1,952)	(1,136)
Investment activities		
Bond sales and maturities	**29,591**	27,263
Mortgage loan repayments	**2,926**	2,525
Sale of shares	**2,274**	3,171
Business acquisitions, net of cash and cash equivalents acquired	**(4)**	(43)
Investment in bonds	**(32,491)**	(31,462)
Investment in mortgage loans	**(3,394)**	(4,703)
Investment in shares	**(2,551)**	(2,156)
Investment in investment properties and other	**(195)**	(28)
	(3,844)	(5,433)
Effect of changes in exchange rates on cash and cash equivalents	**299**	78
Increase (decrease) in cash and cash equivalents	**199**	(355)
Cash and cash equivalents, beginning of year	**3,989**	4,344
Cash and cash equivalents, end of year	**4,188**	3,989
Net cash from operating activities includes		
Interest and dividends received	**5,881**	5,479
Interest paid	**533**	533

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(ALL TABULAR AMOUNTS ARE IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE NOTED.)

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NOTE 1 CORPORATE INFORMATION

Power Financial Corporation (Power Financial or the Corporation) is a publicly listed company (TSX: PWF) incorporated and domiciled in Canada whose registered address of the Corporation is 751 Victoria Square, Montréal, Québec, Canada, H2Y 2J3.

Power Financial is a diversified international management and holding company that holds interests, directly or indirectly, in companies in the financial services sector in Canada, the United States and Europe. Through its investment in Pargesa Holding SA, Power Financial also has substantial holdings based in Europe.

The Consolidated Financial Statements (financial statements) of Power Financial for the year ended December 31, 2015 were approved by its Board of Directors on March 23, 2016. The Corporation is controlled by Power Corporation of Canada.

The following abbreviations are used throughout this report: Canadian Asset Liability Method (CALM); Great-West Life & Annuity Insurance Company (Great-West Financial or Great-West Life & Annuity); Great-West Lifeco Inc. (Lifeco); IGM Financial Inc. (IGM or IGM Financial); International Financial Reporting Standards (IFRS); Investors Group Inc. (Investors Group); Irish Life Group Limited (Irish Life); London Life Insurance Company (London Life); Mackenzie Financial Corporation (Mackenzie); Pargesa Holding SA (Pargesa); Parjointco N.V. (Parjointco); Power Corporation of Canada (Power Corporation); Putnam Investments, LLC (Putnam); The Canada Life Assurance Company (Canada Life); The Great-West Life Assurance Company (Great-West Life).

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Power Financial at December 31, 2015 have been prepared in accordance with International Financial Reporting Standards.

BASIS OF PRESENTATION

The financial statements include the accounts of Power Financial and all its subsidiaries on a consolidated basis after elimination of intercompany transactions and balances. Subsidiaries are entities the Corporation controls, when the Corporation has power over the entity, it is exposed, or has rights, to variable returns from its involvement and has the ability to affect those returns through its use of power over the entity. Subsidiaries of the Corporation are consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date that such control ceases. The Corporation will reassess whether or not it controls an entity if facts and circumstances indicate there are changes to one or more of the elements of control listed above.

The operating subsidiaries of the Corporation are:

- Great-West Lifeco Inc., a public company in which the Corporation and IGM Financial Inc. hold 67.4% and 4.0% of the common shares, respectively (2014 – 67.2% and 4.0%, respectively). Lifeco's major operating subsidiary companies are The Great-West Life Assurance Company, Great-West Life & Annuity Insurance Company, London Life Insurance Company, The Canada Life Assurance Company, Irish Life Group Limited and Putnam Investments, LLC.
- IGM Financial Inc., a public company in which the Corporation and The Great-West Life Assurance Company hold 60.4% and 3.8% of the common shares, respectively (2014 – 58.8% and 3.7%, respectively). IGM's major operating subsidiary companies are Investors Group Inc. and Mackenzie Financial Corporation.

These financial statements of Power Financial include the results of Great-West Lifeco Inc. and IGM Financial Inc. on a consolidated basis; the amounts shown in the consolidated balance sheets, consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows are derived from the publicly disclosed consolidated financial statements of Great-West Lifeco Inc. and IGM Financial Inc., both as at and for the year ended December 31, 2015. The notes to Power Financial's financial statements are derived from the notes to the financial statements of Great-West Lifeco Inc. and IGM Financial Inc.

Jointly controlled corporations are entities in which unanimous consent is required for decisions relating to relevant activities. Associates are entities in which the Corporation exercises significant influence over the entity's operating and financial policies, without having control or joint control. Investments in jointly controlled corporations and associates are accounted for using the equity method. Under the equity method, the share of net earnings, other comprehensive income and the changes in equity of the jointly controlled corporations and associates are recognized in the consolidated statements of earnings, consolidated statements of comprehensive income and consolidated statements of changes in equity, respectively.

The Corporation holds a 50% (2014 – 50%) interest in Parjointco N.V., a jointly controlled corporation that is considered to be a joint venture. Parjointco holds a 55.5% (2014 – 55.5%) equity interest in Pargesa Holding SA. Accordingly, the Corporation accounts for its investment in Parjointco using the equity method.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

USE OF SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the preparation of the financial statements, management of the Corporation and management of its subsidiaries are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings and related disclosures. Key sources of estimation uncertainty and areas where significant judgments have been made are listed below and are discussed throughout the notes in these financial statements, including:

- Management consolidates all subsidiaries and entities in which it has determined that the Corporation has control. Control is evaluated according to the ability of the Corporation to direct the relevant activities of the subsidiary or other structured entity in order to derive variable returns. Management of the Corporation and each of its subsidiaries exercise judgment in determining whether control exists. Judgment is exercised in the evaluation of the variable returns and in determining the extent to which the Corporation or its subsidiaries have the ability to exercise the power to generate variable returns.
- The actuarial assumptions made by management of Lifeco, including in regard to the behaviour, mortality and morbidity of policyholders, used in the valuation of insurance and certain investment contract liabilities in accordance with the CALM, require judgment and estimation (Note 12).
- Management of Lifeco uses judgment to evaluate the classification of insurance and reinsurance contracts to determine whether these arrangements should be accounted for as insurance, investment or service contracts.
- In the determination of the fair value of financial instruments, management of the Corporation and of its subsidiaries exercise judgment in the determination of fair value inputs, particularly those items categorized within Level 3 of the fair value hierarchy (Note 26).
- Management of the Corporation and of its subsidiaries evaluate the synergies and future benefits for initial recognition and measurement of goodwill and intangible assets, as well as testing for impairment. The determination of the carrying value and recoverable amount of the cash generating units (to which goodwill and intangible assets are assigned to) relies upon the determination of fair value using valuation methodologies (Note 10).
- Cash generating units for which goodwill and indefinite life intangible assets have been determined by management of the Corporation and of its subsidiaries as the lowest level at which goodwill is monitored for internal reporting purposes. Management of the Corporation and of its subsidiaries use judgment in determining the lowest level of monitoring (Note 10).
- The determination by IGM's management of the estimated useful lives of deferred selling commissions (Note 10).
- The actuarial assumptions used in determining the expense and defined benefit obligation for the Corporation and its subsidiaries' pension plans and other post-employment benefits require significant judgment and estimation. Management of the Corporation and of its subsidiaries review the previous experience of its plan members and market conditions, including interest rates and inflation rates, in evaluating the assumptions used in determining the expense for the current year (Note 24).
- The Corporation and its subsidiaries operate within various tax jurisdictions where significant management judgments and estimates are required when interpreting the relevant tax laws, regulations and legislation in the determination of the Corporation and of its subsidiaries' tax provisions and the carrying amounts of its tax assets and liabilities (Note 16).
- Legal and other provisions are recognized resulting from a past event which, in the judgment of management of the Corporation and of its subsidiaries, has resulted in a probable outflow of economic resources which would be passed onto a third party to settle the obligation. Management of the Corporation and of its subsidiaries use judgment to evaluate the possible outcomes and risks and determine the best estimate of the provision at the balance sheet date (Note 30).

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Management of Lifeco uses independent qualified appraisal services which include judgments and estimates. These appraisals are adjusted by applying management judgments and estimates for material changes in property cash flows, capital expenditures or general market conditions in determining the fair value of investment properties (Note 5).
- The determination by IGM's management as to whether securitized mortgages are derecognized is based on the extent to which the risks and rewards of ownership are transferred (Note 13).
- In the consolidated statements of cash flows, purchases and sales of portfolio investments are recorded within investment activities due to the long-term nature of these investing activities.
- Management of Lifeco exercises judgment, such as the determination of the risks and benefits associated with the transaction, that are used in determining whether Lifeco retains the primary obligation with a client in sub-advisor arrangements. Where Lifeco retains the risks and benefits, revenue and expenses are recorded on a gross basis.
- The provision for future credit losses within Lifeco's insurance contract liabilities relies upon investment credit ratings. Lifeco's practice is to use third-party independent credit ratings where available. Lifeco management's judgment is required when setting credit ratings for instruments that do not have a third-party rating.

REVENUE RECOGNITION

Interest income is accounted for on an accrual basis using the effective interest method for bonds and mortgage loans. Dividend income is recognized when the right to receive payment is established. This is the ex-dividend date for listed shares and usually the notification date or date when the shareholders have approved the dividend for private equity instruments. Interest income and dividend income are recorded in net investment income in the Consolidated Statements of Earnings (statements of earnings).

Lifeco

Premiums for all types of insurance contracts and contracts with limited mortality or morbidity risk are generally recognized as revenue when due and collection is reasonably assured.

Investment property income includes rents earned from tenants under lease agreements and property tax and operating cost recoveries. Rental income leases with contractual rent increases and rent-free periods are recognized on a straight-line basis over the term of the lease. Investment property income is included in net investment income in the statement of earnings.

Fee income primarily includes fees earned from the management of segregated fund assets, proprietary mutual fund assets, fees earned on administrative services only for Group health contracts and fees earned from management services. Fee income is recognized when the service is performed, the amount is collectible and can be reasonably estimated.

Lifeco has sub-advisor arrangements where Lifeco retains the primary obligation with the client. As a result, fee income earned is reported on a gross basis, with the corresponding sub-advisor expense recorded in operating and administrative expenses.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IGM Financial

Management fees are based on the net asset value of the investment fund or other assets under management and are recognized on an accrual basis as the service is performed. Administration fees are also recognized on an accrual basis as the service is performed. Distribution fees derived from investment fund and securities transactions are recognized on a trade-date basis. Distribution fees derived from insurance and other financial services transactions are recognized on an accrual basis. These management, administration and distribution fees are included in fee income in the statements of earnings.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, current operating accounts, overnight bank and term deposits and fixed income securities with an original term to maturity of three months or less.

INVESTMENTS

Investments include bonds, mortgage loans, shares, investment properties, and loans to policyholders of Lifeco. Investments are classified as either fair value through profit or loss, available for sale, held to maturity, loans and receivables, or as non-financial instruments based on management's intention relating to the purpose and nature of the instruments or the characteristics of the investments. The Corporation and its subsidiaries currently have not classified any investments as held to maturity.

Investments in bonds (including fixed income securities), mortgage loans and shares normally actively traded on a public market are either designated or classified as fair value through profit or loss or classified as available for sale and are recorded on a trade-date basis.

A financial asset is designated as fair value through profit or loss on initial recognition if it eliminates or significantly reduces an accounting mismatch. For Lifeco, changes in the fair value of financial assets designated as fair value through profit or loss are generally offset by changes in insurance contract liabilities, since the measurement of insurance contract liabilities is determined with reference to the assets supporting the liabilities.

A financial asset is classified as fair value through profit or loss on initial recognition if it is part of a portfolio that is actively traded for the purpose of earning investment income.

Fair value through profit or loss investments are recorded at fair value on the Consolidated Balance Sheets (balance sheets) with realized and unrealized gains and losses reported in the statements of earnings. Available-for-sale investments are recorded at fair value on the balance sheets with unrealized gains and losses recorded in other comprehensive income. Realized gains and losses are reclassified from other comprehensive income and recorded in the statements of earnings when the available-for-sale investment is sold or impaired.

Investments in mortgage loans and bonds not normally actively traded on a public market are classified as loans and receivables and are carried at amortized cost net of any allowance for credit losses. Impairments and realized gains and losses on the sale of investments classified as loans and receivables are recorded in net investment income in the statements of earnings.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties are real estate held to earn rental income or for capital appreciation. Investment properties are initially measured at cost and subsequently carried at fair value on the balance sheets. Changes in fair value are recorded as net investment income in the statements of earnings. Properties held to earn rental income or for capital appreciation that have an insignificant portion that is owner occupied or where there is no intent to occupy on a long-term basis are classified as investment properties. Properties that do not meet these criteria are classified as owner-occupied properties.

Loans to policyholders of Lifeco are classified as loans and receivables and measured at amortized cost. Loans to policyholders are shown at their unpaid principal balance and are fully secured by the cash surrender values of the policies. The carrying value of loans to policyholders approximates fair value.

Fair value measurement

The carrying values of financial assets necessarily reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods the Corporation and its subsidiaries rely upon.

Fair value movement on the assets supporting insurance contract liabilities is a major factor in the movement of insurance contract liabilities. Changes in the fair value of bonds designated or classified as fair value through profit or loss that support insurance contract liabilities are largely offset by corresponding changes in the fair value of liabilities, except when the bond has been deemed impaired.

The following is a description of the methodologies used to determine fair value.

a) Bonds at fair value through profit or loss and available for sale

Fair values for bonds recorded at fair value through profit or loss or available for sale are determined with reference to quoted market bid prices primarily provided by third-party independent pricing sources. The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Corporation and its subsidiaries obtain quoted prices in active markets, when available, for identical assets at the balance sheet dates to measure bonds at fair value in its fair value through profit or loss and available-for-sale portfolios. Where prices are not quoted in a normally active market, fair values are determined by valuation models.

The Corporation and its subsidiaries estimate the fair value of bonds not traded in active markets by referring to actively traded securities with similar attributes, dealer quotations, matrix pricing methodology, discounted cash flow analyses and/or internal valuation models. This methodology considers such factors as the issuer's industry, the security's rating, term, coupon rate and position in the capital structure of the issuer, as well as yield curves, credit curves, prepayment rates and other relevant factors. For bonds that are not traded in active markets, valuations are adjusted to reflect illiquidity, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

b) Shares at fair value through profit or loss and available for sale

Fair values for publicly traded shares are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for shares for which there is no active market are determined by discounting expected future cash flows. The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Corporation and its subsidiaries obtain quoted prices in active markets, when available, for identical assets at the balance sheet dates to measure shares at fair value in its fair value through profit or loss and available-for-sale portfolios.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Mortgage loans and bonds classified as loans and receivables

The fair values disclosed for bonds and mortgage loans, classified as loans and receivables, are determined by discounting expected future cash flows using current market rates. Valuation inputs typically include benchmark yields and risk-adjusted spreads based on current lending activities and market activity.

d) Investment properties

Fair values for investment properties are determined using independent qualified appraisal services and include adjustments by Lifeco management for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals. The determination of the fair value of investment properties requires the use of estimates including future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market conditions. Investment properties under construction are valued at fair value if such values can be reliably determined; otherwise, they are recorded at cost.

Impairment

Investments are reviewed regularly on an individual basis at the end of each reporting period to determine whether there is any objective evidence that the investment is impaired. The Corporation and its subsidiaries consider various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults, and delinquency in payments of interest or principal.

Investments are deemed to be impaired when there is no longer reasonable assurance of collection. The fair value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors, including the remaining term to maturity and liquidity of the asset. However, market price is taken into consideration when evaluating impairment.

For impaired mortgage loans and bonds classified as loans and receivables, provisions are established or impairments recorded to adjust the carrying value to the net realizable amount. Wherever possible, the fair value of collateral underlying the loans or observable market price is used to establish net realizable value. For impaired available-for-sale bonds, the accumulated loss recorded in other comprehensive income is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

Impairment losses on available-for-sale shares are recorded if the loss is significant or prolonged and subsequent losses are recorded in net earnings.

Securities lending

Lifeco engages in securities lending through its securities custodians as lending agents. Loaned securities are not derecognized, and continue to be reported within investments, as Lifeco retains substantial risks and rewards and economic benefits related to the loaned securities.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

TRANSACTION COSTS

Transaction costs are expensed as incurred for financial instruments classified or designated as fair value through profit or loss. Transaction costs for financial assets classified as available for sale or loans and receivables are added to the value of the instrument at acquisition, and taken into net earnings using the effective interest rate method for those allocated to loans and receivables. Transaction costs for financial liabilities classified as other than fair value through profit or loss are deducted from the value of the instrument issued and taken into net earnings using the effective interest rate method.

FUNDS HELD BY CEDING INSURERS / FUNDS HELD UNDER REINSURANCE CONTRACTS

On the asset side, funds held by ceding insurers are assets that would normally be paid to Lifeco but are retained by the cedant to reduce potential credit risk. Under certain forms of reinsurance contracts it is customary for the cedant to retain amounts on a funds-withheld basis supporting the insurance or investment contract liabilities ceded. For the funds-withheld assets where the underlying asset portfolio is managed by Lifeco, the credit risk is retained by Lifeco. The funds-withheld balance where Lifeco assumes the credit risk is measured at the fair value of the underlying asset portfolio with the change in fair value recorded in net investment income. See Note 6 for funds held by ceding insurers that are managed by Lifeco. Other funds held by ceding insurers are general obligations of the cedant and serve as collateral for insurance contract liabilities assumed from cedants. Funds-withheld assets on these contracts do not have fixed maturity dates, their release generally being dependent on the run-off of the corresponding insurance contract liabilities.

On the liability side, funds held under reinsurance contracts consist mainly of amounts retained by Lifeco from ceded business written on a funds-withheld basis. Lifeco withholds assets related to ceded insurance contract liabilities in order to reduce credit risk.

REINSURANCE CONTRACTS

Lifeco, in the normal course of business, is a user of reinsurance in order to limit the potential for losses arising from certain exposures and a provider of reinsurance. Assumed reinsurance refers to the acceptance of certain insurance risks by Lifeco underwritten by another company. Ceded reinsurance refers to the transfer of insurance risk, along with the respective premiums, to one or more reinsurers who will share the risks. To the extent that assuming reinsurers are unable to meet their obligations, Lifeco remains liable to its policyholders for the portion reinsured. Consequently, allowances are made for reinsurance contracts which are deemed uncollectible.

Reinsurance contracts are insurance contracts and undergo the classification as described within the Insurance and Investment Contract Liabilities section of this note. Assumed reinsurance premiums, commissions and claim settlements, as well as the reinsurance assets associated with insurance and investment contracts, are accounted for in accordance with the terms and conditions of the underlying reinsurance contract. Reinsurance assets are reviewed for impairment on a regular basis for any events that may trigger impairment. Lifeco considers various factors in the impairment evaluation process, including, but not limited to, collectability of amounts due under the terms of the contract. The carrying amount of a reinsurance asset is adjusted through an allowance account with any impairment loss being recorded in the statements of earnings.

Any gains or losses on buying reinsurance are recognized in the statement of earnings immediately at the date of purchase in accordance with the CALM.

Assets and liabilities related to reinsurance are reported on a gross basis in the balance sheets. The amount of liabilities ceded to reinsurers is estimated in a manner consistent with the claim liability associated with reinsured risks.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

OWNER-OCCUPIED PROPERTIES AND CAPITAL ASSETS

Owner-occupied properties and capital assets are carried at cost less accumulated depreciation and impairments. Capital assets include equipment, furniture and fixtures. Depreciation is charged to write off the cost of assets, using the straight-line method, over their estimated useful lives, on the following bases:

- Owner-occupied properties 10–50 years
- Capital assets 3–17 years

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted if necessary. Owner-occupied properties and capital assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

OTHER ASSETS

Other assets include premiums in course of collection, accounts receivable, prepaid expenses, deferred acquisition costs and miscellaneous other assets which are measured at amortized cost. Deferred acquisition costs relating to investment contracts are recognized as assets if the costs are incremental and incurred due to the contract being issued. Deferred acquisition costs are amortized on a straight-line basis over the term of the policy, not exceeding 20 years.

BUSINESS COMBINATIONS, GOODWILL AND INTANGIBLE ASSETS

Business combinations are accounted for using the acquisition method. Goodwill represents the excess of purchase consideration over the fair value of net assets acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets comprise finite life and indefinite life intangible assets. Finite life intangible assets include the value of technology and software, customer contract-related and deferred selling commissions. Finite life intangible assets are reviewed at least annually to determine if there are indicators of impairment and assess whether the amortization period and method are appropriate. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives on the following basis: i) technology and software (5 to 10 years); and ii) customer contract-related (9 to 20 years).

Commissions paid by IGM on the sale of certain mutual funds are deferred and amortized over their estimated useful lives, not exceeding a period of seven years. Commissions paid on the sale of deposits are deferred and amortized over their estimated useful lives, not exceeding a period of five years. When a client redeems units in mutual funds that are subject to a deferred sales charge, a redemption fee is paid by the client and is recorded as revenue by IGM. Any unamortized deferred selling commission asset recognized on the initial sale of these investment fund units or shares is recorded as a disposal. IGM regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by IGM to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value.

Indefinite life intangible assets include brands, trademarks and trade names, some customer contracts, mutual fund management contracts and the shareholders' portion of acquired future participating account profit. Amounts are classified as indefinite life intangible assets when based on an analysis of all the relevant factors, and when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. The identification of indefinite life intangible assets is made by reference to relevant factors such as product life cycles, potential obsolescence, industry stability and competitive position. Following initial recognition, indefinite life intangible assets are measured at cost less accumulated impairment losses.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment testing

Goodwill and indefinite life intangible assets are tested for impairment annually or more frequently if events indicate that impairment may have occurred. Indefinite life intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal.

Goodwill and indefinite life intangible assets have been allocated to cash generating units or to groups of cash generating units (CGU), representing the lowest level that the assets are monitored for internal reporting purposes. Goodwill and indefinite life intangible assets are tested for impairment by comparing the carrying value of the CGU to the recoverable amount of the CGU to which the goodwill and indefinite life intangible assets have been allocated.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost of disposal or value in use, which is calculated using the present value of estimated future cash flows expected to be generated.

SEGREGATED FUNDS

Segregated fund assets and liabilities arise from contracts where all financial risks associated with the related assets are borne by policyholders and are presented separately in the balance sheets. The assets and liabilities are set equal to the fair value of the underlying asset portfolio. Investment income and changes in fair value of the segregated fund assets are offset by corresponding changes in the segregated fund liabilities.

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Contract classification

When significant insurance risk exists, Lifeco's products are classified at contract inception as insurance contracts, in accordance with IFRS 4, *Insurance Contracts* (IFRS 4). Significant insurance risk exists when Lifeco agrees to compensate policyholders or beneficiaries of the contract for specified uncertain future events that adversely affect the policyholder and whose amount and timing is unknown. Refer to Note 12 for a discussion of insurance risk.

In the absence of significant insurance risk, the contract is classified as an investment contract or service contract. Investment contracts with discretionary participating features are accounted for in accordance with IFRS 4 and investment contracts without discretionary participating features are accounted for in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*. Lifeco has not classified any contracts as investment contracts with discretionary participating features.

Investment contracts may be reclassified as insurance contracts after inception if insurance risk becomes significant. A contract that is classified as an insurance contract at contract inception remains as such until all rights and obligations under the contract are extinguished or expire.

Investment contracts are contracts that carry financial risk, which is the risk of a possible future change in one or more of the following: interest rate, commodity price, foreign exchange rate, or credit rating. Refer to Note 21 for a discussion on risk management.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement

Insurance contract liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with Lifeco. The Appointed Actuaries of Lifeco's subsidiary companies are responsible for determining the amount of the liabilities in order to make appropriate provisions for Lifeco's obligations to policyholders. The Appointed Actuaries determine the liabilities for insurance and investment contracts using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the CALM. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality and morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Investment contract liabilities are measured at fair value determined using discounted cash flows utilizing the yield curves of financial instruments with similar cash flow characteristics.

DERECOGNITION OF SECURITIZED MORTGAGES

IGM enters into transactions where it transfers financial assets recognized on its balance sheets. The determination of whether the financial assets are derecognized is based on the extent to which the risks and rewards of ownership are transferred.

If substantially all of the risks and rewards of a financial asset are not retained, IGM derecognizes the financial asset. The gains or losses and the servicing fee revenue for financial assets that are derecognized are reported in net investment income in the statements of earnings.

If all or substantially all risks and rewards are retained, the financial assets are not derecognized and the transactions are accounted for as secured financing transactions.

OTHER FINANCIAL LIABILITIES

Debentures and other debt instruments, and capital trust debentures are initially recorded on the balance sheets at fair value and subsequently carried at amortized cost using the effective interest rate method with amortization expense recorded in financing charges in the statements of earnings. These liabilities are derecognized when the obligation is cancelled or redeemed.

Accounts payable, dividends and interest payable, and deferred income reserves are measured at amortized cost. Deferred income reserves related to investment contracts are amortized on a straight-line basis to recognize the initial policy fees over the policy term, not exceeding 20 years.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The Corporation and its subsidiaries maintain funded defined benefit pension plans for certain employees and advisors, unfunded supplementary employee retirement plans for certain employees, and unfunded post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependants. The Corporation's subsidiaries also maintain defined contribution pension plans for eligible employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average earnings. Expenses for the defined benefit plans are actuarially determined using the projected unit credit method prorated on service, based upon management of the Corporation and its subsidiaries' assumptions about discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. Any changes in these assumptions will impact the carrying amount of defined benefit obligations. The Corporation and its subsidiaries' accrued benefit liability in respect of defined benefit plans is calculated separately for each plan by discounting the amount of the benefit that employees have earned in return for their service in current and prior periods and deducting the fair value of any plan assets.

The Corporation and its subsidiaries determine the net interest component of the pension expense for the period by applying the discount rate used to measure the accrued benefit liability at the beginning of the annual period to the net accrued benefit liability. The discount rate used to value liabilities is determined using a yield curve of AA corporate debt securities.

If the plan benefits are changed, or a plan is curtailed, any past service costs or curtailment gains or losses are recognized immediately in net earnings.

Net interest costs, current service costs, past service costs and curtailment gains or losses are included in operating and administrative expenses.

Remeasurements arising from defined benefit plans represent actuarial gains and losses, and the actual return on plan assets, less interest calculated at the discount rate and changes in the asset ceiling. Remeasurements are recognized immediately through other comprehensive income and are not reclassified to net earnings.

The accrued benefit asset (liability) represents the plan surplus (deficit) and is included in other assets or other liabilities.

Payments to the defined contribution plans are expensed as incurred.

INCOME TAXES

The income tax expense for the period represents the sum of current income tax and deferred income tax. Income tax is recognized as an expense or income in the statements of earnings, except to the extent that it relates to items that are not recognized in the statements of earnings (whether in other comprehensive income or directly in equity), in which case the income tax is also recognized in other comprehensive income or directly in equity.

Current income tax

Current income tax is based on taxable income for the year. Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities using the rates that have been enacted or substantively enacted at the balance sheet date. Current tax assets and current tax liabilities are offset, if a legally enforceable right exists to offset the recognized amounts and the entity intends either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

A provision for tax uncertainties which meets the probable threshold for recognition is measured based on the probability-weighted average approach.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred income tax

Deferred income tax is the tax expected to be payable or recoverable on differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income and on unused tax attributes, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences and unused tax attributes can be utilized.

Deferred tax assets and liabilities are measured at the tax rates expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to net current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, jointly controlled corporations and associates, except where the group controls the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation and its subsidiaries use derivative products as risk management instruments to hedge or manage asset, liability and capital positions, including revenues. The Corporation and its subsidiaries' policy guidelines prohibit the use of derivative instruments for speculative trading purposes.

Derivatives are recorded at fair value on the balance sheets. The method of recognizing unrealized and realized fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives that are not designated as hedging instruments, unrealized and realized gains and losses are recorded in net investment income on the statements of earnings. For derivatives designated as hedging instruments, unrealized and realized gains and losses are recognized according to the nature of the hedged item.

Derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value a derivative depends on the contractual terms of, and specific risks inherent in, the instrument, as well as the availability of pricing information in the market. The Corporation and its subsidiaries generally use similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs.

To qualify for hedge accounting, the relationship between the hedged item and the hedging instrument must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting treatment and both the hedged item and the hedging instrument are reported independently, as if there was no hedging relationship.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Where a hedging relationship exists, the Corporation and its subsidiaries document all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking derivatives that are used in hedging transactions to specific assets and liabilities on the balance sheets or to specific firm commitments or forecasted transactions. The Corporation and its subsidiaries also assess, both at the hedge's inception and on an ongoing basis, whether derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. Hedge effectiveness is reviewed quarterly through correlation testing.

Fair value hedges
Fair value hedges are used to manage the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, changes in fair value of both the hedging instrument and the hedged item are recorded in net investment income and consequently any ineffective portion of the hedge is recorded immediately in net investment income.

Cash flow hedges
Cash flow hedges are used to manage the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. For cash flow hedges, the effective portion of the change in fair value of the hedging instrument is recorded in other comprehensive income, while the ineffective portion is recognized immediately in net investment income. Gains and losses on cash flow hedges that accumulate in other comprehensive income are recorded in net investment income in the same period the hedged item affects net earnings. Gains and losses on cash flow hedges are immediately reclassified from other comprehensive income to net investment income if and when it is probable that a forecasted transaction is no longer expected to occur.

Net investment hedges
Net investment hedges are used to manage the exposure to changes in the reporting entity's share in the net share of a foreign operation. For net investment hedges, the effective portion of changes in the fair value of the hedging instrument is recorded in other comprehensive income while the ineffective portion is recognized immediately in net investment income. The unrealized foreign exchange gains (losses) on the instruments are recorded within other comprehensive income and will be reclassified into net earnings when the instruments are derecognized. Hedge accounting is discontinued when the hedge no longer qualifies for hedge accounting.

EMBEDDED DERIVATIVES
An embedded derivative is a component of a host contract that modifies the cash flows of the host contract in a manner similar to a derivative, according to a specified interest rate, financial instrument price, foreign exchange rate, underlying index or other variable. Embedded derivatives are treated as separate contracts and are recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract and the host contract is not itself recorded at fair value through the statement of earnings. Embedded derivatives that meet the definition of an insurance contract are accounted for and measured as an insurance contract.

EQUITY
Financial instruments issued by Power Financial are classified as stated capital if they represent a residual interest in the assets of the Corporation. Preferred shares are classified as equity if they are non-redeemable, or retractable only at the Corporation's option and any dividends are discretionary. Costs that are directly attributable to the issue of share capital are recognized as a deduction from retained earnings, net of income tax.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reserves are composed of share-based compensation and other comprehensive income. Share-based compensation reserves represent the vesting of options less options exercised. Other comprehensive income represents the total of the unrealized foreign exchange gains (losses) on translation of foreign operations, the actuarial gains (losses) on benefit plans, the unrealized gains (losses) on available-for-sale assets, the unrealized gains (losses) on cash flow hedges, and the share of other comprehensive income of jointly controlled corporations and associates.

Non-controlling interests represent the proportion of equity that is attributable to minority shareholders.

SHARE-BASED PAYMENTS

The fair value-based method of accounting is used for the valuation of compensation expense for options granted to employees. Compensation expense is recognized as an increase to operating and administrative expenses in the statements of earnings over the vesting period of the granted options, with a corresponding increase in share-based compensation reserves. When the stock options are exercised, the proceeds received, together with the amount recorded in share-based compensation reserve, are added to the stated capital of the entity issuing the corresponding shares.

The Corporation and its subsidiaries recognize a liability for cash-settled awards, including those granted under Performance Share Unit plans and Deferred Share Unit plans. Compensation expense is recognized as an increase to operating and administrative expenses in the statements of earnings, net of related hedges, and a liability is recognized on the balance sheets over the period, if any. The liability is remeasured at fair value at each reporting period with the change in the liability recorded in operating and administrative expenses.

FOREIGN CURRENCY TRANSLATION

The Corporation and its subsidiaries operate with multiple functional currencies. The Corporation's financial statements are prepared in Canadian dollars, which is the functional and presentation currency of the Corporation.

Assets and liabilities denominated in foreign currencies are translated into each entity's functional currency at exchange rates prevailing at the balance sheet dates for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. Revenues and expenses denominated in foreign currencies are translated into each entity's functional currency at an average of daily rates. Realized and unrealized exchange gains and losses are included in net investment income.

Translation of net investment in foreign operations

Assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all revenues and expenses are translated at an average of daily rates. Unrealized foreign currency translation gains and losses on the Corporation's net investment in its foreign operations, jointly controlled corporations and associates are presented as a component of other comprehensive income. Unrealized foreign currency translation gains and losses are recognized in earnings when there has been a disposal of a foreign operation, jointly controlled corporation or associate.

POLICYHOLDER BENEFITS

Policyholder benefits include benefits and claims on life insurance contracts, maturity payments, annuity payments and surrenders. Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year and settlement of claims. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LEASES

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, where the Corporation and its subsidiaries are the lessee, are charged to net earnings over the period of use.

Where the Corporation and its subsidiaries are the lessor under an operating lease for its investment property, the assets subject to the lease arrangement are presented within the balance sheets. Income from these leases is recognized in the statements of earnings on a straight-line basis over the lease term.

Investments in a lease that transfers substantially all the risks and rewards of ownership to the lessee are classified as a finance lease. Under a finance lease, the investment is recognized as a receivable at an amount equal to the net investment in the lease, which is represented as the present value of the minimum lease payments due from the lessee and is presented within the balance sheets. Payments received from the lessee are apportioned between the recognition of finance lease income and the reduction of the finance lease receivable. Income from the finance leases is recognized in the statements of earnings at a constant periodic rate of return on net investment in the finance lease.

EARNINGS PER COMMON SHARE

Basic earnings per common share is determined by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding for the year. Diluted earnings per common share is determined using the same method as basic earnings per common share, except that the weighted average number of common shares outstanding includes the potential dilutive effect of outstanding stock options granted by the Corporation and its subsidiaries, as determined by the treasury stock method.

FUTURE ACCOUNTING CHANGES

The Corporation and its subsidiaries continuously monitor the potential changes proposed by the International Accounting Standards Board (IASB) and analyze the effect that changes in the standards may have on their consolidated financial statements when they become effective.

IFRS 9 – Financial Instruments

The IASB issued IFRS 9, *Financial Instruments,* which replaces IAS 39, *Financial Instruments: Recognition and Measurement*, the current standard for accounting for financial instruments. The standard was completed in three separate phases:

- Classification and measurement: this phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.
- Impairment methodology: this phase replaces the current incurred loss model for impairment of financial assets with an expected loss model.
- Hedge accounting: this phase replaces the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities.

In December 2015, the IASB published an exposure draft with proposed amendments to IFRS 4, *Insurance Contracts* to alleviate the temporary consequences of the different effective dates with IFRS 9. Companies whose business model is to predominantly issue insurance contracts are allowed the option to defer the effective date of IFRS 9 until the earliest of the mandatory effective date of IFRS 4 or January 1, 2021. For companies that do not issue insurance contracts, the effective date of January 1, 2018 should remain. The Corporation and its subsidiaries are evaluating the impact of the adoption of this standard.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

The IASB issued IFRS 15, *Revenue from Contracts with Customers,* which provides a single model for entities to use in accounting for revenue arising from contracts with customers. The model requires an entity to recognize revenue as the goods or services are transferred to customers in an amount that reflects the expected consideration. The revenue recognition requirements in IFRS 15 do not apply to the revenue arising from insurance contracts, leases and financial instruments.

The standard will be effective January 1, 2018. The Corporation and its subsidiaries are evaluating the impact of the adoption of this standard.

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16, *Leases,* which requires a lessee to recognize a right-of-use asset representing its right to use the underlying leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. A lessee recognizes the related expense as depreciation on the right-of-use asset and interest on the lease liability. Short-term (less than 12 months) and low-value asset leases are exempt from these requirements.

The standard will be effective January 1, 2019. The Corporation and its subsidiaries are evaluating the impact of the adoption of this standard.

COMPARATIVE FIGURES

During the year, the Corporation and its subsidiaries reclassified certain comparative figures to conform to the current year's presentation (Notes 5, 9, 16 and 25). The reclassifications had no impact on equity or net earnings.

NOTE 3 BUSINESS ACQUISITION

LEGAL & GENERAL INTERNATIONAL (IRELAND) LIMITED

On July 1, 2015, Lifeco, through its indirect wholly owned subsidiary The Canada Life Group (UK) Ltd., acquired Legal & General International (Ireland) Limited (LGII), a provider of investment and wealth management solutions for high net worth individuals primarily in the United Kingdom.

At the date of acquisition, Lifeco recognized $5,465 million of unit-linked funds within investments on account of segregated fund policyholders and insurance and investment contracts on account of segregated fund policyholders (Note 11).

Revenues and net earnings from LGII, along with the goodwill from the acquisition, were not significant.

NOTE 4 CASH AND CASH EQUIVALENTS

	December 31, 2015	December 31, 2014
Cash	1,900	1,698
Cash equivalents	2,288	2,291
Cash and cash equivalents	4,188	3,989

At December 31, 2015, cash amounting to $159 million was restricted for use by subsidiaries ($142 million at December 31, 2014).

NOTE 5 INVESTMENTS

CARRYING VALUES AND FAIR VALUES

Carrying values and estimated fair values of investments are as follows:

	December 31, 2015		December 31, 2014	
	Carrying value	Fair value	Carrying value	Fair value
Bonds				
Designated as fair value through profit or loss [1] [3]	83,645	83,645	77,671	77,671
Classified as fair value through profit or loss [1] [3]	2,815	2,815	2,286	2,286
Available for sale	12,014	12,014	10,501	10,501
Loans and receivables	16,905	18,253	13,178	14,659
	115,379	116,727	103,636	105,117
Mortgage loans				
Loans and receivables	29,029	30,712	27,199	29,016
Designated as fair value through profit or loss [1]	384	384	366	366
	29,413	31,096	27,565	29,382
Shares				
Designated as fair value through profit or loss [1]	6,692	6,692	6,697	6,697
Available for sale [2]	597	597	620	620
	7,289	7,289	7,317	7,317
Investment properties	5,237	5,237	4,613	4,613
Loans to policyholders	8,694	8,694	7,711	7,711
	166,012	169,043	150,842	154,140

(1) A financial asset is designated as fair value through profit or loss on initial recognition if it eliminates or significantly reduces an accounting mismatch. For Lifeco, changes in the fair value of financial assets designated as fair value through profit or loss are generally offset by changes in insurance contract liabilities, since the measurement of insurance contract liabilities is determined with reference to the assets supporting the liabilities.

A financial asset is classified as fair value through profit or loss on initial recognition if it is part of a portfolio that is actively traded for the purpose of earning investment income.

(2) Fair value of certain shares available for sale cannot be reliably measured, therefore these investments are held at cost.

(3) During the year, Lifeco reclassified $119 million of bonds from designated as fair value through profit or loss to classified as fair value through profit or loss at December 31, 2014 to conform to the current year's presentation.

BONDS AND MORTGAGES

Carrying value of bonds and mortgages due over the current and non-current term is as follows:

	Carrying value			
	Term to maturity			
December 31, 2015	1 year or less	1-5 years	Over 5 years	Total
Bonds	12,041	25,901	77,070	115,012
Mortgage loans	2,522	11,879	14,600	29,001
	14,563	37,780	91,670	144,013

	Carrying value			
	Term to maturity			
December 31, 2014	1 year or less	1-5 years	Over 5 years	Total
Bonds	11,107	19,520	72,644	103,271
Mortgage loans	2,546	12,010	12,630	27,186
	13,653	31,530	85,274	130,457

The table shown above excludes the carrying value of impaired bonds and mortgages, as the ultimate timing of collectability is uncertain.

NOTE 5 INVESTMENTS (continued)

IMPAIRED INVESTMENTS AND ALLOWANCE FOR CREDIT LOSSES

Carrying amount of impaired investments is as follows:

	December 31, 2015	December 31, 2014
Impaired amounts by classification		
Fair value through profit or loss	355	355
Available for sale	11	14
Loans and receivables	33	17
Total	399	386

The carrying amount of impaired investments includes bonds and mortgages and other loans. The above carrying values for loans and receivables are net of allowances for credit losses of $21 million as at December 31, 2015 ($19 million as at December 31, 2014). The allowance for credit losses is supplemented by the provision for future credit losses included in insurance contract liabilities.

NET INVESTMENT INCOME

Year ended December 31, 2015	Bonds	Mortgage loans	Shares	Investment properties	Other	Total
Regular net investment income						
Investment income earned	4,259	1,021	280	356	398	6,314
Net realized gains	114	118	10	–	–	242
Other income (expenses)	–	(11)	–	(100)	(113)	(224)
	4,373	1,128	290	256	285	6,332
Changes in fair value through profit or loss	(1,987)	4	(412)	249	133	(2,013)
Net investment income	2,386	1,132	(122)	505	418	4,319

Year ended December 31, 2014	Bonds	Mortgage loans	Shares	Investment properties	Other	Total
Regular net investment income						
Investment income earned	4,115	996	239	319	457	6,126
Net realized gains	65	40	11	–	–	116
Net recovery (provision) for credit losses (loans and receivables)	(9)	(8)	–	–	–	(17)
Other income (expenses)	–	(15)	–	(75)	(97)	(187)
	4,171	1,013	250	244	360	6,038
Changes in fair value through profit or loss	6,605	2	482	262	174	7,525
Net investment income	10,776	1,015	732	506	534	13,563

Investment income earned comprises income from investments that are classified as available for sale, loans and receivables and classified or designated as fair value through profit or loss. Investment income from bonds and mortgage loans includes interest income and premium and discount amortization. Income from shares includes dividends and distributions. Investment properties income includes rental income earned on investment properties, ground rent income earned on leased and sub-leased land, fee recoveries, lease cancellation income, and interest and other investment income earned on investment properties. Other income includes policyholder loan income, foreign exchange gains and losses, income earned from derivative financial instruments and other miscellaneous income.

NOTE 5 INVESTMENTS (continued)

INVESTMENT PROPERTIES

The carrying value of investment properties and changes in the carrying value of investment properties are as follows:

	December 31, 2015	December 31, 2014
Balance, beginning of year	4,613	4,288
Additions	278	127
Changes in fair value through profit or loss	249	262
Disposals	(282)	(98)
Transfer to owner-occupied properties	–	(13)
Foreign exchange rate changes and other	379	47
Balance, end of year	5,237	4,613

TRANSFERRED FINANCIAL ASSETS

Lifeco engages in securities lending to generate additional income. Lifeco's securities custodians are used as lending agents. Collateral, which exceeds the fair value of the loaned securities, is deposited by the borrower with Lifeco's lending agent and maintained by the lending agent until the underlying security has been returned. The fair value of the loaned securities is monitored on a daily basis by the lending agent, who obtains or refunds additional collateral as the fair value of the loaned securities fluctuates. There was no cash collateral included in the collateral deposited with Lifeco's lending agent as at December 31, 2015 ($16 million as at December 31, 2014). In addition, the securities lending agent indemnifies Lifeco against borrower risk, meaning that the lending agent agrees contractually to replace securities not returned due to a borrower default. As at December 31, 2015, Lifeco had loaned securities (which are included in investments) having a fair value of $6,833 million ($5,890 million as at December 31, 2014).

NOTE 6 FUNDS HELD BY CEDING INSURERS

Included in funds held by ceding insurers of $15,512 million at December 31, 2015 ($12,154 million at December 31, 2014) are the following agreements.

In 2015, Canada Life Limited, an indirect wholly owned subsidiary of Lifeco, entered into an agreement with The Equitable Life Assurance Society (Equitable Life) to assume, by way of indemnity reinsurance, the assets and liabilities of the annuity business of Equitable Life totalling $1,620 million.

In December 2015, an indirect wholly owned subsidiary of Lifeco entered into a retrocession agreement to assume a block of investment contract liabilities totaling $1,323 million in the form of structured settlements with fixed terms and amounts. Lifeco's subsidiary has assumed the credit risk on the portfolio of assets, included in funds held by the ceding reinsurer, that back the related investment contract liabilities. The ceding reinsurer has the right to recapture the retrocession transaction if certain conditions are not met.

In 2014, an indirect wholly owned reinsurance subsidiary of Lifeco entered into an agreement to assume by way of indemnity reinsurance a block of payout annuities. Under the agreement, Lifeco's subsidiary is required to put amounts on deposit with the counterparty and the subsidiary has assumed the credit risk on the portfolio of assets included in the amounts on deposit.

In 2008, Canada Life International Re Limited (CLIRE), Lifeco's indirect wholly owned Irish reinsurance subsidiary, signed an agreement with Standard Life, a U.K.-based provider of life, pension and investment products, to assume by way of indemnity reinsurance a large block of payout annuities. Under the agreement, CLIRE is required to put amounts on deposit with Standard Life and CLIRE has assumed the credit risk on the portfolio of assets included in the amounts on deposit.

The assets for these agreements are included in funds held by ceding insurers on the balance sheets. Revenue and expenses arising from the agreements are included in net investment income on the statements of earnings.

At December 31, 2015 Lifeco had amounts on deposit of $13,830 million ($10,758 million at December 31, 2014) for these four agreements. The details of the funds on deposit and related credit risk on the funds related to these agreements are as follows:

Carrying values and estimated fair values

	December 31, 2015		December 31, 2014	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	180	180	200	200
Bonds	13,472	13,472	10,397	10,397
Other assets	178	178	161	161
	13,830	13,830	10,758	10,758
Supporting:				
Reinsurance liabilities	13,222	13,222	10,386	10,386
Surplus	608	608	372	372
	13,830	13,830	10,758	10,758

NOTE 6 FUNDS HELD BY CEDING INSURERS (continued)

Fair value by hierarchy level

The following presents the amounts on deposit for funds held by ceding insurers measured at fair value on a recurring basis by hierarchy level:

	December 31, 2015				December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	180	–	–	180	200	–	–	200
Bonds	–	13,472	–	13,472	–	10,397	–	10,397
Total	180	13,472	–	13,652	200	10,397	–	10,597

Carrying value of bonds by issuer and industry sector

The following table provides details of the carrying value of bonds included in the funds on deposit by issuer and industry sector:

	December 31, 2015	December 31, 2014
Bonds issued or guaranteed by:		
Canadian federal government	–	49
Provincial, state and municipal governments	5	16
U.S. treasury and other U.S. agencies	72	25
Other foreign governments	3,224	1,923
Government-related	561	548
Supranationals	195	167
Asset-backed securities	319	260
Residential mortgage-backed securities	117	107
Banks	1,967	1,944
Other financial institutions	1,098	1,087
Basic materials	134	110
Communications	176	168
Consumer products	1,117	862
Industrial products/services	398	174
Natural resources	531	389
Real estate	932	778
Transportation	328	231
Utilities	1,762	1,411
Miscellaneous	512	130
Short-term bonds	24	18
Total bonds	13,472	10,397

Asset quality

The following table provides details of the carrying value of the bond portfolio by credit rating:

Bond portfolio by credit rating	December 31, 2015	December 31, 2014
AAA	3,697	2,312
AA	3,405	2,944
A	5,186	4,194
BBB	798	596
BB and lower	386	351
Total bonds	13,472	10,397

NOTE 7 INVESTMENTS IN JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES

Investments in jointly controlled corporations and associates are composed principally of the Corporation's 50% interest in Parjointco. As at December 31, 2015, Parjointco held a 55.5% equity interest in Pargesa (same as December 31, 2014), representing 75.4% of the voting rights.

Investments in jointly controlled corporations and associates also include Lifeco's 30.4% investment (same as December 31, 2014), held through its wholly owned subsidiary Irish Life, in Allianz Ireland, an unlisted general insurance company operating in Ireland.

The carrying values of the investments in jointly controlled corporations and associates are as follows:

	December 31, 2015			December 31, 2014		
	Parjointco	Other	Total	Parjointco	Other	Total
Carrying value, beginning of year	2,440	237	2,677	2,437	227	2,664
Investments	–	18	18	–	–	–
Share of earnings	205	19	224	187	24	211
Share of other comprehensive income (loss)	24	22	46	(97)	(20)	(117)
Dividends	(69)	(4)	(73)	(75)	(24)	(99)
Other	10	3	13	(12)	30	18
Carrying value, end of year	2,610	295	2,905	2,440	237	2,677

The net asset value of the Corporation's indirect interest in Pargesa is approximately $3,056 million as at December 31, 2015. The carrying value of the investment in Pargesa is $2,610 million, or $2,290 million excluding the unrealized net gains of its underlying investments. Pargesa's financial information as at and for the year ended December 31, 2015 can be obtained in its publicly available information.

NOTE 8 OWNER-OCCUPIED PROPERTIES AND CAPITAL ASSETS

The carrying value and the changes in the carrying value of owner-occupied properties and capital assets are as follows:

	December 31, 2015			December 31, 2014		
	Owner-occupied properties	Capital assets	Total	Owner-occupied properties	Capital assets	Total
Cost, beginning of year	732	1,062	1,794	693	968	1,661
Additions	11	159	170	15	105	120
Transferred from investment properties	–	–	–	13	–	13
Disposal/retirements	(2)	(13)	(15)	–	(17)	(17)
Changes in foreign exchange rates	35	32	67	11	6	17
Cost, end of year	776	1,240	2,016	732	1,062	1,794
Accumulated amortization, beginning of year	(61)	(747)	(808)	(52)	(684)	(736)
Amortization	(12)	(88)	(100)	(9)	(72)	(81)
Disposal/retirements	1	8	9	–	–	–
Changes in foreign exchange rates	–	(11)	(11)	–	9	9
Accumulated amortization, end of year	(72)	(838)	(910)	(61)	(747)	(808)
Carrying value, end of year	704	402	1,106	671	315	986

The following table provides details of the carrying value of owner-occupied properties and capital assets by geographic location:

	December 31, 2015	December 31, 2014
Canada	680	638
United States	277	212
Europe	149	136
	1,106	986

NOTE 9 OTHER ASSETS

	December 31, 2015	December 31, 2014
Premiums in course of collection, accounts receivable and interest receivable	4,120	3,527
Deferred acquisition costs [(1)]	704	685
Pension benefits [Note 24]	250	275
Income taxes receivable	79	71
Trading account assets	590	405
Finance leases receivable	293	285
Prepaid expenses	146	132
Other [(1)]	726	652
	6,908	6,032

(1) During the year, Lifeco reclassified $41 million of other assets from other to deferred acquisition costs at December 31, 2014 to conform to the current year's presentation.

Total other assets of $5,636 million as at December 31, 2015 ($4,811 million as at December 31, 2014) are to be realized within 12 months.

NOTE 10 GOODWILL AND INTANGIBLE ASSETS

GOODWILL

The carrying value and changes in the carrying value of goodwill are as follows:

	December 31, 2015			December 31, 2014		
	Cost	Accumulated impairment	Carrying value	Cost	Accumulated impairment	Carrying value
Balance, beginning of year	10,192	(1,043)	9,149	10,058	(953)	9,105
Business acquisitions	3	–	3	51	–	51
Changes in foreign exchange rates	256	(198)	58	83	(90)	(7)
Balance, end of year	10,451	(1,241)	9,210	10,192	(1,043)	9,149

INTANGIBLE ASSETS

The carrying value and changes in the carrying value of the intangible assets are as follows:

Indefinite life intangible assets

December 31, 2015	Brands, trademarks and trade names	Customer contract-related	Mutual fund management contracts	Shareholders' portion of acquired future participating account profit	Total
Cost, beginning of year	1,206	2,592	741	354	4,893
Additions	–	3	–	–	3
Changes in foreign exchange rates	99	424	–	–	523
Cost, end of year	1,305	3,019	741	354	5,419
Accumulated impairment, beginning of year	(140)	(939)	–	–	(1,079)
Changes in foreign exchange rates	(22)	(177)	–	–	(199)
Accumulated impairment, end of year	(162)	(1,116)	–	–	(1,278)
Carrying value, end of year	1,143	1,903	741	354	4,141

December 31, 2014	Brands, trademarks and trade names	Customer contract-related	Mutual fund management contracts	Shareholders' portion of acquired future participating account profit	Total
Cost, beginning of year	1,178	2,398	741	354	4,671
Changes in foreign exchange rates	28	194	–	–	222
Cost, end of year	1,206	2,592	741	354	4,893
Accumulated impairment, beginning of year	(132)	(858)	–	–	(990)
Changes in foreign exchange rates	(8)	(81)	–	–	(89)
Accumulated impairment, end of year	(140)	(939)	–	–	(1,079)
Carrying value, end of year	1,066	1,653	741	354	3,814

NOTE 10 GOODWILL AND INTANGIBLE ASSETS (continued)

Finite life intangible assets

December 31, 2015	Technology and software	Customer contract-related	Deferred selling commissions	Other	Total
Cost, beginning of year	1,017	745	1,347	221	3,330
Additions	233	–	250	2	485
Disposal/redemption	–	–	(64)	(1)	(65)
Changes in foreign exchange rates	81	65	–	9	155
Other, including write-off of assets fully amortized	–	–	(177)	–	(177)
Cost, end of year	1,331	810	1,356	231	3,728
Accumulated amortization, beginning of year	(574)	(338)	(637)	(98)	(1,647)
Amortization	(101)	(49)	(203)	(11)	(364)
Impairment	(2)	–	–	–	(2)
Disposal/redemption	–	–	34	–	34
Changes in foreign exchange rates	(50)	(31)	–	(3)	(84)
Other, including write-off of assets fully amortized	–	–	177	–	177
Accumulated amortization, end of year	(727)	(418)	(629)	(112)	(1,886)
Carrying value, end of year	604	392	727	119	1,842

December 31, 2014	Technology and software	Customer contract-related	Deferred selling commissions	Other	Total
Cost, beginning of year	825	707	1,379	221	3,132
Business acquisitions	–	18	–	–	18
Additions	157	–	256	1	414
Disposal/redemption	(16)	–	(69)	–	(85)
Changes in foreign exchange rates	32	20	–	(1)	51
Other, including write-off of assets fully amortized	19	–	(219)	–	(200)
Cost, end of year	1,017	745	1,347	221	3,330
Accumulated amortization, beginning of year	(474)	(280)	(691)	(87)	(1,532)
Amortization	(87)	(47)	(203)	(11)	(348)
Impairment	(7)	–	–	–	(7)
Disposal/redemption	14	–	38	–	52
Changes in foreign exchange rates	(20)	(11)	–	–	(31)
Other, including write-off of assets fully amortized	–	–	219	–	219
Accumulated amortization, end of year	(574)	(338)	(637)	(98)	(1,647)
Carrying value, end of year	443	407	710	123	1,683

NOTE 10 GOODWILL AND INTANGIBLE ASSETS (continued)

ALLOCATION TO CASH GENERATING UNITS

Goodwill and indefinite life intangible assets have been assigned to CGUs as follows:

	December 31, 2015			December 31, 2014		
	Goodwill	Intangible assets	Total	Goodwill	Intangible assets	Total
Lifeco						
Canada						
Group	1,156	–	1,156	1,156	–	1,156
Individual insurance / wealth management	3,028	973	4,001	3,028	973	4,001
Europe						
Insurance and annuities	1,978	246	2,224	1,950	221	2,171
Reinsurance	1	–	1	1	–	1
United States						
Financial services	210	–	210	180	–	180
Asset management	–	1,896	1,896	–	1,594	1,594
IGM						
Investors Group	1,443	–	1,443	1,443	–	1,443
Mackenzie	1,251	1,003	2,254	1,251	1,003	2,254
Other and corporate	143	23	166	140	23	163
	9,210	4,141	13,351	9,149	3,814	12,963

RECOVERABLE AMOUNT

Lifeco

For purposes of annual impairment testing, Lifeco allocates goodwill and indefinite life intangible assets to its CGUs. Any potential impairment of goodwill or indefinite life intangible assets is identified by comparing the recoverable amount to its carrying value. Recoverable amount is based on fair value less cost of disposal.

Fair value is initially assessed with reference to valuation multiples of comparable publicly traded financial institutions and previous business acquisition transactions. These valuation multiples may include price-to-earnings or price-to-book measures for life insurers and asset managers. This assessment may give regard to a variety of relevant considerations, including expected growth, risk and capital market conditions, among other factors. The valuation multiples used in assessing fair value represent Level 2 inputs.

In the fourth quarter of 2015, Lifeco conducted its annual impairment testing of goodwill and indefinite life intangible assets based on September 30, 2015 asset balances. It was determined that the recoverable amounts of cash generating unit groupings were in excess of their carrying values and there was no evidence of impairment.

Any reasonable changes in assumptions and estimates used in determining the recoverable amounts of the CGUs is unlikely to cause the carrying values to exceed their recoverable amounts.

NOTE 10 GOODWILL AND INTANGIBLE ASSETS (continued)

IGM Financial

IGM tests whether goodwill and indefinite life intangible assets are impaired by assessing the carrying amounts with the recoverable amounts. The recoverable amount of IGM's CGUs is based on the best available evidence of fair value less cost of disposal. Fair value is initially assessed with reference to valuation multiples of comparable publicly traded financial institutions and previous business acquisition transactions. These valuation multiples may include price-to-earnings or other conventionally used measures for investment managers or other financial service providers (multiples of value to assets under management, revenues, or other measures of profitability). This assessment may give regard to a variety of relevant considerations, including expected growth, risk and capital market conditions, among other factors. The valuation multiples used in assessing fair value represent Level 2 fair value inputs.

The fair value less cost of disposal of IGM's CGUs was compared with the carrying amount and it was determined there was no impairment. Any reasonable changes in assumptions and estimates used in determining the recoverable amounts of the CGUs is unlikely to cause the carrying values to exceed their recoverable amounts.

NOTE 11 SEGREGATED FUNDS AND OTHER STRUCTURED ENTITIES

Lifeco offers segregated fund products in Canada, the U.S. and Europe that are referred to as segregated funds, separate accounts and unit-linked funds in the respective markets. These funds are contracts issued by insurers to segregated fund policyholders where the benefit is directly linked to the performance of the investments, the risks or rewards of the fair value movements and net investment income is realized by the segregated fund policyholders. The segregated fund policyholders are required to select the segregated funds that hold a range of underlying investments. While Lifeco has legal title to the investments, there is a contractual obligation to pass along the investment results to the segregated fund policyholder and Lifeco segregates these investments from those of the corporation itself.

In Canada and the U.S., the segregated fund and separate account assets are legally separated from the general assets of Lifeco under the terms of the policyholder agreement and cannot be used to settle obligations of Lifeco. In Europe, the assets of the funds are functionally and constructively segregated from those of Lifeco. As a result of the legal and constructive arrangements of these funds, the assets and liabilities of these funds are presented as line items within the balance sheets titled investments on account of segregated fund policyholders and with an equal liability titled insurance and investment contracts on account of segregated fund policyholders.

In circumstances where the segregated funds are invested in structured entities and are deemed to control the entity, Lifeco has presented the non-controlling ownership interest within the segregated funds for the risk of policyholders as equal and offsetting amounts in the assets and liabilities. The amounts presented within are $1,390 million at December 31, 2015 ($1,012 million at December 31, 2014).

Within the statements of earnings, all segregated fund policyholders' income, including fair value changes and net investment income, is credited to the segregated fund policyholders and reflected in the assets and liabilities on account of segregated fund policyholders within the balance sheets. As these amounts do not directly impact the revenues and expenses of Lifeco, these amounts are not included separately in the statements of earnings.

NOTE 11 SEGREGATED FUNDS AND OTHER STRUCTURED ENTITIES (continued)

SEGREGATED FUNDS AND GUARANTEE EXPOSURE

Lifeco offers retail segregated fund products, variable annuity products and unitized with profits products that provide for certain guarantees that are tied to the fair values of the investment funds. While these products are similar to mutual funds, there is a key difference from mutual funds as the segregated funds have certain guarantee features that protect the segregated fund policyholder from market declines in the underlying investments. These guarantees are Lifeco's primary exposure on these funds. Lifeco accounts for these guarantees within insurance and investment contract liabilities in the financial statements. In addition to Lifeco's exposure on the guarantees, the fees earned by Lifeco on these products are impacted by the fair value of these funds.

In Canada, Lifeco offers retail segregated fund products through Great-West Life, London Life and Canada Life. These products provide guaranteed minimum death benefits and guaranteed minimum accumulation on maturity benefits.

In the U.S., Lifeco offers variable annuities with guaranteed minimum death benefits through Great-West Financial. Most are a return of premium on death with the guarantee expiring at age 70.

In Europe, Lifeco offers unitized with profits products through Canada Life and unit-linked products with investment guarantees through Irish Life. These products are similar to segregated fund products, but include pooling of policyholders' funds and minimum credited interest rates.

Lifeco also offers guaranteed minimum withdrawal benefits products in Canada, the U.S. and Germany. The guaranteed minimum withdrawal benefits products offered by Lifeco offer levels of death and maturity guarantees. At December 31, 2015, the amount of guaranteed minimum withdrawal benefits products in force in Canada, the U.S., Ireland and Germany was $3,488 million ($3,016 million at December 31, 2014).

Lifeco's exposure to these guarantees is set out as follows:

				December 31, 2015
				Investment deficiency by benefit type
	Income	Maturity	Death	Total[1]
Canada	–	48	213	213
United States	28	–	55	83
Europe	444	–	473	914
Total	472	48	741	1,210

				December 31, 2014
				Investment deficiency by benefit type
	Income	Maturity	Death	Total[1]
Canada	–	30	97	97
United States	1	–	43	44
Europe	351	36	72	422
Total	352	66	212	563

[1] A policy can only receive a payout for one of the three trigger events (income election, maturity, or death).

NOTE 11 SEGREGATED FUNDS AND OTHER STRUCTURED ENTITIES (continued)

The investment deficiency measures the point-in-time exposure to a trigger event (i.e. income election, maturity, or death) assuming it occurred on December 31, 2015. The actual cost to Lifeco will depend on the trigger event having occurred and the fair values at that time. The actual claims before tax associated with these guarantees were approximately $15 million for the year ended December 31, 2015 ($10 million in 2014), with the majority arising in the Europe segment.

For further details on Lifeco's risk and guarantee exposure and the management of these risks, refer to "Risk Management and Control Practices" in the Lifeco section of the Corporation's December 31, 2015 Management's Discussion and Analysis.

The following presents further details of the investments, determined in accordance with the relevant statutory reporting requirements of each region of Lifeco's operations, on account of segregated fund policyholders:

INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

	December 31, 2015	December 31, 2014
Cash and cash equivalents	11,656	11,052
Bonds	42,160	37,912
Mortgage loans	2,596	2,508
Shares and units in unit trusts	80,829	68,911
Mutual funds	50,101	46,707
Investment properties	10,839	9,533
	198,181	176,623
Accrued income	382	364
Other liabilities	(1,759)	(3,033)
Non-controlling mutual fund interest	1,390	1,012
	198,194	174,966

INSURANCE AND INVESTMENT CONTRACTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

	Years ended December 31,	
	2015	2014
Balance, beginning of year	174,966	160,779
Additions (deductions):		
Policyholder deposits	21,592	20,909
Net investment income	2,855	2,997
Net realized capital gains on investments	4,780	5,683
Net unrealized capital gains (losses) on investments	(2,938)	5,301
Unrealized gains due to changes in foreign exchange rates	12,933	826
Policyholder withdrawals	(21,934)	(21,057)
Business acquisition [Note 3]	5,465	–
Segregated fund investment in General Fund	43	(382)
General fund investment in Segregated Fund	(11)	(401)
Net transfer from General Fund	65	71
Non-controlling mutual fund interest	378	240
	23,228	14,187
Balance, end of year	198,194	174,966

NOTE 11 SEGREGATED FUNDS AND OTHER STRUCTURED ENTITIES (continued)

INVESTMENT INCOME ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

	Years ended December 31,	
	2015	2014
Net investment income	2,855	2,997
Net realized capital gains on investments	4,780	5,683
Net unrealized capital gains (losses) on investments	(2,938)	5,301
Unrealized gains due to changes in foreign exchange rates	12,933	826
Total	17,630	14,807
Change in insurance and investment contract liabilities on account of segregated fund policyholders	17,630	14,807
Net	–	–

INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS (by fair value hierarchy level)

December 31, 2015	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders [1]	120,283	67,333	11,765	199,381

(1) Excludes other liabilities, net of other assets, of $1,187 million.

December 31, 2014	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders [1]	112,189	54,942	10,390	177,521

(1) Excludes other liabilities, net of other assets, of $2,555 million.

In 2015 certain foreign equity holdings valued at $412 million have been transferred from Level 1 to Level 2 ($2,234 million were transferred from Level 1 to Level 2 at December 31, 2014), based on Lifeco's ability to utilize observable, quoted prices in active markets.

Level 2 assets include those assets where fair value is not available from normal market pricing sources and where Lifeco does not have visibility through to the underlying assets.

The following presents additional information about Lifeco's investments on account of segregated fund policyholders for which Lifeco has utilized Level 3 inputs to determine fair value for the years ended December 31:

	December 31, 2015	December 31, 2014
Balance, beginning of year	10,390	9,298
Total gains included in segregated fund investment income	1,039	782
Purchases	944	919
Sales	(607)	(603)
Transfers into Level 3	–	4
Transfers out of Level 3	(1)	(10)
Balance, end of year	11,765	10,390

Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors.

In addition to the segregated funds, Lifeco has interests in a number of structured unconsolidated entities including mutual funds, open-ended investment companies, and unit trusts. These entities are created as investment strategies for its unit holders based on the directive of each individual fund.

NOTE 11 SEGREGATED FUNDS AND OTHER STRUCTURED ENTITIES (continued)

Some of these funds are managed by related parties of Lifeco and Lifeco receives management fees related to these services. In addition, certain of these segregated funds are invested in mutual funds of related parties. Management fees can be variable due to the performance of factors – such as markets or industries – in which the fund invests. Fee income derived in connection with the management of investment funds generally increases or decreases in direct relationship with changes of assets under management, which is affected by prevailing market conditions, and the inflow and outflow of client assets.

Factors that could cause assets under management and fees to decrease include declines in equity markets, changes in fixed income markets, changes in interest rates and defaults, redemptions and other withdrawals, political and other economic risks, changing investment trends and relative investment performance. The risk is that fees may vary but expenses and recovery of initial expenses are relatively fixed, and market conditions may cause a shift in asset mix potentially resulting in a change in revenue.

Fee and other income earned by Lifeco resulting from Lifeco's interests in these structured entities was $4,291 million for the year ended December 31, 2015 ($3,813 million in 2014).

Included within other assets (Note 9) at December 31, 2015 is $501 million ($327 million at December 31, 2014) of investments by Lifeco in bonds and shares of Putnam-sponsored funds and $89 million ($78 million at December 31, 2014) of investments in shares of sponsored unit trusts in Europe.

NOTE 12 INSURANCE AND INVESTMENT CONTRACT LIABILITIES

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

December 31, 2015	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	158,492	5,131	153,361
Investment contract liabilities	2,180	–	2,180
	160,672	5,131	155,541

December 31, 2014	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	145,198	5,151	140,047
Investment contract liabilities	857	–	857
	146,055	5,151	140,904

COMPOSITION OF INSURANCE AND INVESTMENT CONTRACT LIABILITIES AND RELATED SUPPORTING ASSETS

The composition of insurance and investment contract liabilities of Lifeco is as follows:

	December 31, 2015			December 31, 2014		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Participating						
Canada	32,072	(419)	32,491	31,181	(156)	31,337
United States	12,278	16	12,262	10,362	12	10,350
Europe	1,519	–	1,519	1,377	–	1,377
Non-participating						
Canada	28,162	794	27,368	28,094	832	27,262
United States	27,625	339	27,286	22,611	233	22,378
Europe	59,016	4,401	54,615	52,430	4,230	48,200
	160,672	5,131	155,541	146,055	5,151	140,904

NOTE 12 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (continued)

The composition of the assets supporting liabilities and equity of Lifeco is as follows:

December 31, 2015	Bonds	Mortgage loans	Shares [1]	Investment properties	Other	Total
Participating liabilities						
Canada	15,332	7,816	4,112	1,341	3,471	32,072
United States	5,887	485	–	–	5,906	12,278
Europe	1,087	40	154	71	167	1,519
Non-participating liabilities						
Canada	18,848	3,839	1,732	7	3,736	28,162
United States	23,023	3,813	–	–	789	27,625
Europe	32,985	4,358	226	3,342	18,105	59,016
Other, including segregated funds	12,045	941	–	65	200,952	214,003
Total equity	5,736	729	1,649	411	16,735	25,260
Total carrying value	114,943	22,021	7,873	5,237	249,861	399,935
Fair value	116,291	23,446	7,305	5,237	249,861	402,140

December 31, 2014	Bonds	Mortgage loans	Shares [1]	Investment properties	Other	Total
Participating liabilities						
Canada	13,856	7,810	4,270	1,167	4,078	31,181
United States	5,080	278	–	–	5,004	10,362
Europe	968	38	144	63	164	1,377
Non-participating liabilities						
Canada	18,991	3,941	1,740	5	3,417	28,094
United States	18,678	3,330	–	–	603	22,611
Europe	30,723	3,702	191	2,738	15,076	52,430
Other, including segregated funds	9,998	690	4	107	177,958	188,757
Total equity	4,874	757	1,471	533	14,262	21,897
Total carrying value	103,168	20,546	7,820	4,613	220,562	356,709
Fair value	104,649	22,167	7,331	4,613	220,562	359,322

(1) Fair value excludes shares classified as available for sale and carried at cost when a fair value cannot be reliably measured.

Cash flows of assets supporting insurance and investment contract liabilities are matched within reasonable limits. Changes in the fair values of these assets are essentially offset by changes in the fair value of insurance and investment contract liabilities.

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time in accordance with investment accounting policies.

NOTE 12 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (continued)

CHANGE IN INSURANCE CONTRACT LIABILITIES

The change in insurance contract liabilities during the year was the result of the following business activities and changes in actuarial estimates:

	Participating			Non-participating			
December 31, 2015	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net	Total net
Balance, beginning of year	42,893	(144)	43,037	102,305	5,295	97,010	140,047
Impact of new business	23	–	23	4,380	126	4,254	4,277
Normal change in in-force business	1,046	(70)	1,116	(5,711)	(178)	(5,533)	(4,417)
Management actions and changes in assumptions	(276)	(192)	(84)	(489)	(78)	(411)	(495)
Business movement from/to external parties	–	–	–	1,588	(2)	1,590	1,590
Impact of foreign exchange rate changes	2,158	3	2,155	10,575	371	10,204	12,359
Balance, end of year	45,844	(403)	46,247	112,648	5,534	107,114	153,361

	Participating			Non-participating			
December 31, 2014	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net	Total net
Balance, beginning of year	39,663	(121)	39,784	91,511	5,191	86,320	126,104
Impact of new business	20	–	20	6,062	152	5,910	5,930
Normal change in in-force business	2,312	8	2,304	2,588	162	2,426	4,730
Management actions and changes in assumptions	(42)	(32)	(10)	(440)	(24)	(416)	(426)
Business movement from/to external parties	–	–	–	(100)	(25)	(75)	(75)
Impact of foreign exchange rate changes	940	1	939	2,684	(161)	2,845	3,784
Balance, end of year	42,893	(144)	43,037	102,305	5,295	97,010	140,047

Under fair value accounting, movement in the fair value of the supporting assets is a major factor in the movement of insurance contract liabilities. Changes in the fair value of assets are largely offset by corresponding changes in the fair value of liabilities. The change in the value of the insurance contract liabilities associated with the change in the value of the supporting assets is included in the normal change in force above.

On May 15, 2014, the Canadian Actuarial Standards Board published the Standards of Practice (Standards) effective October 15, 2014, reflecting revisions to economic reinvestment assumptions used in the valuation of insurance contract liabilities.

In 2015, the major contributors to the increase in net insurance contract liabilities were the impact of foreign exchange rate changes of $12,359 million, the impact of new business of $4,277 million, and business movement from/to external parties of $1,590 million, which was primarily due to the acquisition of Equitable Life's annuity business during the first quarter of 2015, partially offset by decreases due to the normal changes in the in-force business of $4,417 million, which were primarily due to the change in fair value, and management actions and assumption changes of $495 million.

NOTE 12 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (continued)

Net non-participating insurance contract liabilities decreased by $411 million in 2015 due to management actions and assumption changes including a $50 million decrease in Canada, a $331 million decrease in Europe and a $30 million decrease in the United States.

The decrease in Canada was primarily due to updated mortality assumptions of $159 million, updated economic assumptions of $15 million and updated expense and tax assumptions of $12 million, partially offset by increases due to updated policyholder behaviour assumptions of $85 million, and modelling refinements of $49 million.

The decrease in Europe was primarily due to updated longevity assumptions of $292 million, updated economic assumptions of $184 million, updated morbidity assumptions of $12 million and updates to other provisions of $10 million, partially offset by increases due to updated mortality assumptions of $64 million, updated expense and tax assumptions of $55 million, modelling refinements of $37 million and updated policyholder behaviour assumptions of $11 million.

The decrease in the United States was primarily due to updated economic assumptions of $30 million and updated mortality assumptions of $8 million, partially offset by increases due to updated policyholder behaviour assumptions of $6 million.

Net participating insurance contract liabilities decreased by $84 million in 2015 due to management actions and assumption changes. The decrease was primarily due to provisions for future policyholder dividends of $4,991 million, updated expense and tax assumptions of $545 million and updated mortality assumptions of $412 million, partially offset by increases due to lower investment returns of $5,527 million, updated policyholder behaviour assumptions of $188 million, and modelling refinements of $149 million.

In 2014, the major contributors to the increase in net insurance contract liabilities were the impact of new business of $5,930 million, the normal change in the in-force business of $4,730 million which was primarily due to the change in fair value and the impact of foreign exchange rate changes of $3,784 million. This was partially offset by decreases due to management actions and assumption changes of $426 million.

Net non-participating insurance contract liabilities decreased by $416 million in 2014 due to management actions and assumption changes, including a $193 million decrease in Canada, a $135 million decrease in Europe and an $88 million decrease in the United States.

The decrease in Canada was primarily due to modelling refinements of $83 million, updated economic assumptions, including the change in Standards of $77 million, updated policyholder behaviour assumptions of $60 million, updated morbidity assumptions of $44 million, updated expenses and taxes of $10 million and updates to other provisions of $6 million, partially offset by increases due to updated mortality assumptions of $62 million and updated longevity assumptions of $25 million.

The decrease in Europe was primarily due to updated longevity assumptions of $110 million, updated economic assumptions, including the change in Standards of $107 million, modelling refinements of $63 million and updated morbidity assumptions of $22 million, partially offset by increases due to updated policyholder behaviour assumptions of $142 million, updated mortality assumptions of $20 million and updates to other provisions of $5 million.

NOTE 12 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (continued)

The decrease in the United States was primarily due to updated mortality assumptions of $103 million, updated policyholder behaviour assumptions of $67 million and updated longevity assumptions of $6 million, partially offset by increases due to modelling refinements of $51 million and updated economic assumptions, including the change in Standards, of $37 million.

Net participating insurance contract liabilities decreased by $10 million in 2014 due to management actions and assumption changes. The decrease was primarily due to higher investment returns of $152 million, updated expenses and taxes of $144 million, modelling refinements of $68 million and updated mortality assumptions of $20 million, partially offset by increases due to increased provisions for future policyholder dividends of $360 million, updated policyholder behavior assumptions of $13 million and updated morbidity assumptions of $1 million.

CHANGE IN INVESTMENT CONTRACT LIABILITIES MEASURED AT FAIR VALUE

	December 31, 2015	December 31, 2014
Balance, beginning of year	857	889
Normal change in in-force business	(89)	(78)
Investment experience	18	43
Management actions and changes in assumptions	7	(10)
Business movement from/to external parties	1,330	–
Impact of foreign exchange rate changes	57	13
Balance, end of year	2,180	857

The carrying value of investment contract liabilities approximates their fair value. No investment contract liabilities have been reinsured.

In 2015, business movement from/to external parties is primarily due to a retrocession agreement to assume a block of investment contract liabilities in the form of structured settlements with fixed terms and amount. See Note 6 for more information.

PREMIUM INCOME

	December 31, 2015	December 31, 2014
Direct premiums	22,120	19,926
Assumed reinsurance premiums	6,009	4,760
Total	28,129	24,686

POLICYHOLDER BENEFITS

	December 31, 2015	December 31, 2014
Direct	15,880	14,892
Assumed reinsurance	6,673	4,471
Total	22,553	19,363

NOTE 12 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (continued)

ACTUARIAL ASSUMPTIONS

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

Mortality

A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update Lifeco's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. The actuarial standards were amended in 2011 to remove the requirement that, for life insurance, any reduction in liabilities due to mortality improvement assumptions be offset by an equal amount of provision for adverse deviation. Appropriate provisions have been made for future mortality deterioration on term insurance.

Annuitant mortality is also studied regularly and the results are used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants.

Morbidity

Lifeco uses industry-developed experience tables modified to reflect emerging Lifeco experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation.

Property and casualty reinsurance

Insurance contract liabilities for property and casualty reinsurance written by London Reinsurance Group Inc. (LRG), a subsidiary of London Life, are determined using accepted actuarial practices for property and casualty insurers in Canada. The insurance contract liabilities have been established using cash flow valuation techniques, including discounting. The insurance contract liabilities are based on cession statements provided by ceding companies. In certain instances, LRG management adjusts cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. In addition, insurance contract liabilities also include an amount for incurred but not reported losses which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated, and adjustments to estimates are reflected in earnings. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in-depth analysis is undertaken of the cedant experience.

Investment returns

The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the CALM to determine insurance contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (refer to Note 21).

NOTE 12 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (continued)

Expenses

Contractual policy expenses (e.g., sales commissions) and tax expenses are reflected on a best estimate basis. Expense studies for indirect operating expenses are updated regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. Improvements in unit operating expenses are not projected. An inflation assumption is incorporated in the estimate of future operating expenses consistent with the interest rate scenarios projected under the CALM as inflation is assumed to be correlated with new money interest rates.

Policy termination

Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where Lifeco has no experience with specific types of policies or its exposure is limited. Lifeco has significant exposures in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy renewal rates at the end of term for renewable term policies in Canada and Reinsurance. Industry experience has guided Lifeco's assumptions for these products as Lifeco's own experience is very limited.

Utilization of elective policy options

There are a wide range of elective options embedded in the policies issued by Lifeco. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee resets (segregated fund maturity guarantees). The assumed rates of utilization are based on Lifeco or industry experience when it exists and, when not, on judgment considering incentives to utilize the option. Generally, whenever it is clearly in the best interests of an informed policyholder to utilize an option, then it is assumed to be elected.

Policyholder dividends and adjustable policy features

Future policyholder dividends and other adjustable policy features are included in the determination of insurance contract liabilities with the assumption that policyholder dividends or adjustable benefits will change in the future in response to the relevant experience. The dividend and policy adjustments are determined consistent with policyholders' reasonable expectations, such expectations being influenced by the participating policyholder dividend policies and/or policyholder communications, marketing material and past practice. It is Lifeco's expectation that changes will occur in policyholder dividend scales or adjustable benefits for participating or adjustable business respectively, corresponding to changes in the best estimate assumptions, resulting in an immaterial net change in insurance contract liabilities. Where underlying guarantees may limit the ability to pass all of this experience back to the policyholder, the impact of this non-adjustability impacting shareholder earnings is reflected in the impact of changes in best estimate assumptions above.

RISK MANAGEMENT

Insurance risk

Insurance risk is the risk that the insured event occurs and that there are large deviations between expected and actual actuarial assumptions, including mortality, persistency, longevity, morbidity, expense variations and investment returns.

Lifeco is in the business of accepting risk associated with insurance contract liabilities. Lifeco's objective is to mitigate its exposure to risk arising from these contracts through product design, product and geographical diversification, the implementation of its underwriting strategy guidelines, and through the use of reinsurance arrangements.

NOTE 12 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (continued)

The following table provides information about Lifeco's insurance contract liabilities' sensitivities to its management's best estimate of the approximate impact as a result of changes in assumptions used to determine Lifeco's liability associated with these contracts.

	Impact on net earnings	
	2015	2014
Mortality – 2% increase	(282)	(238)
Annuitant mortality – 2% decrease	(314)	(272)
Morbidity – 5% adverse change	(225)	(220)
Investment returns		
Parallel shift in yield curve		
1% increase	–	–
1% decrease	–	–
Change in range of interest rates		
1% increase	109	41
1% decrease	(430)	(383)
Change in equity markets		
10% increase	45	34
10% decrease	(108)	(113)
Change in best estimate returns for equities		
1% increase	433	355
1% decrease	(457)	(372)
Expenses – 5% increase	(108)	(99)
Policy termination and renewal – 10% adverse change	(602)	(568)

Concentration risk may arise from geographic regions, accumulation of risks and market risk. The concentration of insurance risk before and after reinsurance by geographic region is described below.

	December 31, 2015			December 31, 2014		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Canada	60,234	375	59,859	59,275	676	58,599
United States	39,903	355	39,548	32,973	245	32,728
Europe	60,535	4,401	56,134	53,807	4,230	49,577
	160,672	5,131	155,541	146,055	5,151	140,904

Reinsurance risk

Maximum limits per insured life benefit amount (which vary by line of business) are established for life and health insurance and reinsurance is purchased for amounts in excess of those limits.

Reinsurance costs and recoveries as defined by the reinsurance agreement are reflected in the valuation with these costs and recoveries being appropriately calibrated to the direct assumptions.

Reinsurance contracts do not relieve Lifeco from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to Lifeco. Lifeco evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Certain of the reinsurance contracts are on a funds-withheld basis where Lifeco retains the assets supporting the reinsured insurance contract liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

NOTE 13 OBLIGATION TO SECURITIZATION ENTITIES

IGM securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC) sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) Program and Canada Mortgage Bond (CMB) Program and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. These transactions do not meet the requirements for derecognition as IGM retains prepayment risk and certain elements of credit risk. Accordingly, IGM has retained these mortgages on its balance sheets and has recorded offsetting liabilities for the net proceeds received as obligations to securitization entities which are carried at amortized cost.

IGM earns interest on the mortgages and pays interest on the obligations to securitization entities. As part of the CMB transactions, IGM enters into a swap transaction whereby IGM pays coupons on CMBs and receives investment returns on the NHA MBS and the reinvestment of repaid mortgage principal. A component of this swap, related to the obligation to pay CMB coupons and receive investment returns on repaid mortgage principal, is recorded as a derivative and had a negative fair value of $47 million at December 31, 2015 (a negative fair value of $26 million in 2014).

Under the NHA MBS and CMB Programs, IGM has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages securitized under the NHA MBS and CMB Programs are insured by CMHC or another approved insurer under the program. As part of the ABCP transactions, IGM has provided cash reserves for credit enhancement which are carried at cost. Credit risk is limited to these cash reserves and future net interest income as the ABCP Trusts have no recourse to IGM's other assets for failure to make payments when due. Credit risk is further limited to the extent these mortgages are insured.

	December 31, 2015			December 31, 2014		
	Securitized mortgages	Obligations to securitization entities	Net	Securitized mortgages	Obligations to securitization entities	Net
Carrying value						
NHA MBS and CMB Programs	4,612	4,670	(58)	4,611	4,692	(81)
Bank-sponsored ABCP	2,369	2,422	(53)	2,013	2,062	(49)
Total	6,981	7,092	(111)	6,624	6,754	(130)
Fair value	7,238	7,272	(34)	6,820	6,859	(39)

The carrying value of obligations to securitization entities, which is recorded net of issue costs, includes principal payments received on securitized mortgages that are not due to be settled until after the reporting period. Issue costs are amortized over the life of the obligation on an effective interest rate basis.

NOTE 14 DEBENTURES AND OTHER DEBT INSTRUMENTS

	December 31, 2015		December 31, 2014	
	Carrying value	Fair value	Carrying value	Fair value
DEBENTURES				
Power Financial				
6.90% debentures, due March 11, 2033, unsecured	250	328	250	335
Lifeco				
5.25% subordinated debentures due February 8, 2017, including associated fixed to floating swap (€200 million), unsecured	311	324	298	313
6.14% debentures due March 21, 2018, unsecured	200	220	200	226
4.65% debentures due August 13, 2020, unsecured	499	561	498	557
2.50% debentures due April 18, 2023 (€500 million), unsecured	745	798	695	773
6.40% subordinated debentures due December 11, 2028, unsecured	100	127	100	129
6.74% debentures due November 24, 2031, unsecured	192	264	192	268
6.67% debentures due March 21, 2033, unsecured	391	527	391	536
6.625% deferrable debentures due November 15, 2034 (US$175 million), unsecured	238	282	200	230
5.998% debentures due November 16, 2039, unsecured	342	438	342	450
Subordinated debentures due May 16, 2046, bearing an interest rate of 7.153% until May 16, 2016 and, thereafter, a rate of 2.538% plus the 3-month LIBOR rate (US$300 million), unsecured	414	412	348	354
Subordinated debentures due June 21, 2067, bearing an interest rate of 5.691% until June 21, 2017 and, thereafter, at a rate equal to the Canadian 90-day bankers' acceptance rate plus 1.49%, unsecured	998	1,052	997	1,087
Subordinated debentures due June 26, 2068, bearing an interest rate of 7.127% until June 26, 2018 and, thereafter, at a rate equal to the Canadian 90-day bankers' acceptance rate plus 3.78%, unsecured	498	560	498	583
IGM Financial				
6.58% debentures 2003 Series, due March 7, 2018, unsecured	150	166	150	171
7.35% debentures 2009 Series, due April 8, 2019, unsecured	375	439	375	450
6.65% debentures 1997 Series, due December 13, 2027, unsecured	125	160	125	160
7.45% debentures 2001 Series, due May 9, 2031, unsecured	150	207	150	208
7.00% debentures 2002 Series, due December 31, 2032, unsecured	175	234	175	236
7.11% debentures 2003 Series, due March 7, 2033, unsecured	150	202	150	205
6.00% debentures 2010 Series, due December 10, 2040, unsecured	200	253	200	252
Debentures held by Lifeco as investments	(43)	(57)	(43)	(54)
Total debentures	6,460	7,497	6,291	7,469
OTHER DEBT INSTRUMENTS				
Lifeco				
Commercial paper and other short-term debt instruments with interest rates from 0.213% to 0.223% (0.21% to 0.22% in 2014), unsecured	129	129	114	114
Revolving credit facility with interest equal to LIBOR rate plus 0.70% or U.S. prime rate loan (US$245 million; US$355 million at December 31, 2014), unsecured	338	338	412	412
2.3% mortgage payable (€50 million), matured June 30, 2015	–	–	70	70
Total other debt instruments	467	467	596	596
	6,927	7,964	6,887	8,065

NOTE 14 DEBENTURES AND OTHER DEBT INSTRUMENTS (continued)

The principal payments on debentures and other debt instruments in each of the next five years and thereafter are as follows:

2016	467
2017	300
2018	350
2019	375
2020	500
Thereafter	4,957

NOTE 15 OTHER LIABILITIES

	December 31, 2015	December 31, 2014
Bank overdraft	479	447
Accounts payable	2,072	1,828
Dividends and interest payable	420	401
Income taxes payable	545	768
Deferred income reserve	437	429
Capital trust debentures	161	162
Deposits and certificates	310	223
Funds held under reinsurance contracts	356	313
Pension and other post-employment benefits [Note 24]	1,607	1,661
Other	1,299	1,061
	7,686	7,293

Total other liabilities of $5,067 million as at December 31, 2015 ($4,468 million as at December 31, 2014) are expected to be settled within 12 months.

DEFERRED INCOME RESERVE

Changes in the deferred income reserve of Lifeco are as follows:

	December 31, 2015	December 31, 2014
Balance, beginning of year	429	451
Additions	42	57
Amortization	(39)	(38)
Foreign exchange	51	10
Disposals	(46)	(51)
Balance, end of year	437	429

NOTE 15 OTHER LIABILITIES (continued)

CAPITAL TRUST DEBENTURES

	December 31, 2015		December 31, 2014	
	Carrying value	Fair value	Carrying value	Fair value
Canada Life Capital Trust (CLCT)				
7.529% capital trust debentures due June 30, 2052, unsecured	150	215	150	220
Acquisition-related fair value adjustment	11	–	12	–
	161	215	162	220

CLCT, a trust established by Canada Life, had issued $150 million of Canada Life Capital Securities – Series B (CLiCS – Series B), the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of $150 million.

Distributions and interest on the capital trust debentures are classified as financing charges on the statements of earnings (see Note 23). The fair value for capital trust securities is determined by the bid-ask price.

Subject to regulatory approval, CLCT may redeem the CLiCS – Series B, in whole or in part, at any time.

NOTE 16 INCOME TAXES

EFFECTIVE INCOME TAX RATE

The Corporation's effective income tax rate is derived as follows:

	Years ended December 31	
	2015	2014
	%	%
Combined statutory Canadian federal and provincial tax rates	26.7	26.5
Increase (decrease) in the income tax rate resulting from:		
Non-taxable investment income	(4.9)	(3.4)
Lower effective tax rates on income not subject to tax in Canada	(5.1)	(4.0)
Earnings of investments in jointly controlled corporations and in associates	(1.3)	(1.3)
Other	(0.2)	1.4
Effective income tax rate	15.2	19.2

NOTE 16 INCOME TAXES (continued)

INCOME TAXES

The components of income tax expense recognized in the statements of earnings are:

	Years ended December 31	
	2015	2014
Current taxes		
In respect of the current year	524	585
Recognition of previously unrecognized tax losses, tax credits or temporary differences	–	9
Other	(15)	(33)
	509	561
Deferred taxes		
Origination and reversal of temporary differences [(1)]	198	285
Effect of change in tax rates or imposition of new taxes	1	13
Write-down or reversal of previous write-down of deferred tax assets [(1)]	–	(1)
Recognition of previously unrecognized tax losses, tax credits or temporary differences	(7)	(29)
Other	(22)	5
	170	273
	679	834

(1) During the year, Lifeco reclassified $61 million of deferred tax from origination and reversal of temporary differences to write-down or reversal of previous write-down of deferred tax assets for the year ended December 31, 2014 to conform to the current year's presentation.

The following table shows current and deferred taxes relating to items not recognized in the statements of earnings:

	December 31, 2015		December 31, 2014	
	Other comprehensive income	Equity	Other comprehensive income	Equity
Current taxes	(2)	–	29	–
Deferred taxes	(89)	(2)	(168)	(1)
	(91)	(2)	(139)	(1)

DEFERRED TAXES

Deferred taxes are attributable to the following items:

	December 31, 2015	December 31, 2014
Loss carry forwards	1,794	1,507
Investments [(1)]	(636)	(835)
Insurance and investment contract liabilities	(1,126)	(594)
Deferred selling commissions	(195)	(190)
Intangible assets	(444)	(294)
Other [(1)]	593	352
	(14)	(54)
Presented on the balance sheets as follows:		
Deferred tax assets	1,961	1,707
Deferred tax liabilities	(1,975)	(1,761)
	(14)	(54)

(1) During the year, Lifeco reclassified $39 million of deferred tax asset from investments to other at December 31, 2014 to conform to the current year's presentation.

NOTE 16 INCOME TAXES (continued)

A deferred tax asset is recognized for deductible temporary differences and unused tax attributes only to the extent that realization of the related income tax benefit through future taxable profits is probable.

Recognition is based on the fact that it is probable that the entity will have taxable profits and/or tax planning opportunities available to allow the deferred tax asset to be utilized. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred tax assets. The annual financial planning process provides a significant basis for the measurement of deferred tax assets.

Management of the Corporation and of its subsidiaries assess the recoverability of the deferred tax asset carrying values based on future years' taxable income projections and believes the carrying values of the deferred tax assets as of December 31, 2015 are recoverable.

At December 31, 2015, Lifeco had tax loss carry forwards totalling $5,073 million ($4,200 million in 2014). Of this amount, $4,828 million expires between 2016 and 2035, while $245 million has no expiry date. Lifeco will realize this benefit in future years through a reduction in current income taxes payable.

One of Lifeco's subsidiaries has had a history of recent losses. The subsidiary has a net deferred tax asset balance of $1,303 million (US$944 million) as at December 31, 2015 composed principally of net operating losses and future deductions related to goodwill which has been previously impaired for accounting purposes. Management of Lifeco has concluded that it is probable that the subsidiary and other historically profitable subsidiaries with which it files or intends to file a consolidated United States income tax return will generate sufficient taxable income against which the unused United States losses and deductions will be utilized. The future taxable income is derived principally from tax planning strategies, some of which have already been executed.

As at December 31, 2015, the Corporation and its subsidiaries have non-capital losses of $150 million ($201 million in 2014) available to reduce future taxable income for which the benefits have not been recognized. These losses expire from 2016 to 2035. In addition, the Corporation and its subsidiaries have capital loss carry forwards of $167 million ($133 million in 2014) that can be used indefinitely to offset future capital gains for which the benefits have not been recognized.

As at December 31, 2015 a deferred tax liability of $7 million (nil in 2014) has been recognized with respect to a portion of the temporary difference associated with the investment in a subsidiary. No other deferred tax liability has been recognized in respect of the remaining temporary differences associated with investments in subsidiaries, associates, and jointly controlled corporations as the Corporation and its subsidiaries are able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTE 17 STATED CAPITAL

AUTHORIZED

The authorized capital of Power Financial consists of an unlimited number of First Preferred Shares, issuable in series; an unlimited number of Second Preferred Shares, issuable in series; and an unlimited number of common shares.

ISSUED AND OUTSTANDING

	December 31, 2015		December 31, 2014	
	Number of shares	Stated capital	Number of shares	Stated capital
First Preferred Shares (perpetual)				
Series A (i)	4,000,000	100	4,000,000	100
Series D (ii)	6,000,000	150	6,000,000	150
Series E (ii)	8,000,000	200	8,000,000	200
Series F (ii)	6,000,000	150	6,000,000	150
Series H (ii)	6,000,000	150	6,000,000	150
Series I (ii)	8,000,000	200	8,000,000	200
Series K (ii)	10,000,000	250	10,000,000	250
Series L (ii)	8,000,000	200	8,000,000	200
Series O (ii)	6,000,000	150	6,000,000	150
Series P (ii) (iii)	11,200,000	280	11,200,000	280
Series R (ii)	10,000,000	250	10,000,000	250
Series S (ii)	12,000,000	300	12,000,000	300
Series T (ii)	8,000,000	200	8,000,000	200
		2,580		2,580
Common Shares				
Balance, beginning of year	711,723,680	743	711,173,680	721
Issued under Stock Option Plan	1,515,000	61	550,000	22
Balance, end of year	713,238,680	804	711,723,680	743

First Preferred Shares

(i) The Series A First Preferred Shares are entitled to a quarterly cumulative dividend, at a floating rate equal to one quarter of 70% of the average prime rates quoted by two major Canadian chartered banks and are redeemable, at the Corporation's option, at $25.00 per share, together with all declared and unpaid dividends to, but excluding, the date of redemption.

NOTE 17 STATED CAPITAL (continued)

(ii) The First Preferred Shares series are entitled to fixed non-cumulative preferential cash dividends payable quarterly. The Corporation may redeem for cash the First Preferred Shares, in whole or in part, at the Corporation's option, with all declared and unpaid dividends to, but excluding, the date of redemption.

First Preferred Shares	Cash dividends payable quarterly	Earliest issuer redemption date	Redemption price
	($/share)		($/share)
Non-cumulative, fixed rate			
Series D, 5.50%	0.343750	Currently redeemable	25.00
Series E, 5.25%	0.328125	Currently redeemable	25.00
Series F, 5.90%	0.368750	Currently redeemable	25.00
Series H, 5.75%	0.359375	Currently redeemable	25.00
Series I, 6.00%	0.375000	Currently redeemable	25.00
Series K, 4.95%	0.309375	Currently redeemable	25.00
Series L, 5.10%	0.318750	Currently redeemable	25.00
Series O, 5.80%	0.362500	Currently redeemable	25.75
Series R, 5.50%	0.343750	April 30, 2017	26.00
Series S, 4.80%	0.300000	April 30, 2018	26.00
Non-cumulative, 5-year rate reset (1)			
Series P, 4.40% (iii)	0.275000	January 31, 2016	25.00
Series T, 4.20%	0.262500	January 31, 2019	25.00

(1) The dividend rate will reset on the earliest issuer redemption date and every fifth year thereafter at a rate equal to the 5-year Government of Canada bond yield plus a reset spread (1.60% for Series P and 2.37% for Series T). The holders have the option to convert their shares into non-cumulative floating rate First Preferred Shares subject to certain conditions on the earliest redemption date and every fifth year thereafter at a rate equal to the three-month Government of Canada Treasury Bill rate plus the reset spread indicated.

(iii) On February 1, 2016, 2,234,515 of its outstanding 11,200,000 Non-Cumulative 5-year Rate Reset First Preferred Shares, Series P were converted, on a one-for-one basis, into Non-Cumulative Floating Rate First Preferred Shares, Series Q. The Series Q First Preferred shares are entitled to an annual non-cumulative dividend, payable quarterly at a floating rate equal to the 3-month Government of Canada Treasury Bill rate plus 1.60%.

The dividend rate for the remaining 8,965,485 Series P shares was reset to an annual fixed rate of 2.31% or $0.144125 per share in cash dividends payable quarterly.

Common Shares

During the year 2015, 1,515,000 common shares (550,000 in 2014) were issued under the Corporation's Employee Stock Option Plan for a consideration of $49 million ($17 million in 2014).

Dividends declared on the Corporation's common shares in 2015 amounted to $1.49 per share ($1.40 per share in 2014).

NOTE 18 SHARE-BASED COMPENSATION

STOCK OPTION PLAN

Under Power Financial's Employee Stock Option Plan, 12,356,600 common shares are reserved for issuance. The plan requires that the exercise price of the option must not be less than the market value of a share on the date of the grant of the option. Generally, options granted vest on a delayed basis over periods beginning no earlier than one year from the date of grant and no later than five years from the date of grant. Outstanding options, which are not fully vested, have the following vesting conditions:

Year of grant	Options	Vesting conditions
2011	148,616	Vest equally over a period of five years
2012	239,330	Vest equally over a period of five years
2012	35,127	Vest 50% after three years and 50% after four years
2013	421,628	Vest equally over a period of five years
2013	53,476	Vest 50% after three years and 50% after four years
2014	451,103	Vest equally over a period of five years
2014	1,092,062	Vest 50% after three years and 50% after four years
2015	735,561	Vest equally over a period of five years
2015	925,044	Vest 50% after three years and 50% after four years

A summary of the status of Power Financial's Employee Stock Option Plan as at December 31, 2015 and 2014, and changes during the years ended on those dates is as follows:

	2015		2014	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
		$		$
Outstanding at beginning of year	8,630,477	31.18	7,522,386	30.56
Granted	1,662,585	36.83	1,658,091	34.15
Exercised	(1,515,000)	32.24	(550,000)	31.76
Forfeited	(4,130)	36.09	–	–
Outstanding at end of year	8,773,932	32.06	8,630,477	31.18
Options exercisable at end of year	4,671,985	30.23	5,483,586	30.93

The following table summarizes information about stock options outstanding at December 31, 2015:

	Options outstanding			Options exercisable	
Range of exercise prices	Options	Weighted-average remaining life	Weighted-average exercise price	Options	Weighted-average exercise price
$		(yrs)	$		$
25.07 – 26.37	1,525,467	5.8	25.84	1,113,581	25.93
28.13 – 29.95	1,532,879	3.5	28.96	1,521,692	28.95
30.18 – 31.59	602,383	3.2	31.42	548,907	31.50
32.46 – 32.58	741,006	7.4	32.57	319,378	32.56
33.37 – 34.42	2,088,390	8.7	33.99	112,776	34.42
34.46 – 37.13	1,358,763	3.8	35.33	1,055,651	34.81
38.35	925,044	9.2	38.35	–	–
	8,773,932	6.1	32.06	4,671,985	30.23

NOTE 18 SHARE-BASED COMPENSATION (continued)

Compensation expense

During the year ended December 31, 2015, Power Financial granted 1,662,585 options (1,658,091 options in 2014) under its Employee Stock Option Plan. The fair value of these options was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2015	2014
Dividend yield	4.5%	4.8%
Expected volatility	19.8%	19.8%
Risk-free interest rate	1.2%	2.1%
Expected life (years)	9	9
Fair value per stock option ($/option)	3.30	3.27
Weighted-average exercise price ($/option)	36.83	34.15

Expected volatility has been estimated based on the historical volatility of the Corporation's share price over nine years, which is reflective of the expected option life.

Lifeco and IGM have also established stock option plans pursuant to which options may be granted to certain officers and employees. In addition, other subsidiaries of the Corporation have established share-based compensation plans. Compensation expense is recorded based on the fair value of the options or the fair value of the equity investments at the grant date, amortized over the vesting period. Total compensation expense relating to the stock options granted by the Corporation and its subsidiaries amounted to $67 million in 2015 ($50 million in 2014) and is recorded in operating and administrative expenses in the statements of earnings.

PERFORMANCE SHARE UNIT PLAN

Power Financial established a Performance Share Unit (PSU) Plan for selected employees and officers (participants) to assist in retaining and further aligning the interests of participants with those of the shareholders. Under the terms of the Plan, PSUs may be awarded annually and are subject to time and performance vesting conditions. The value of each PSU is based on the share price of the Corporation's common shares. The PSUs are cash settled and vest over a three-year period. Participants can elect at the time of grant to receive a portion of their PSUs in the form of performance deferred share units (PDSU) which also vest over a three-year period. PDSUs are redeemable when a participant is no longer an employee of the Corporation or any of its affiliates, or in the event of the death of the participant, by a lump-sum payment based on the value of the PDSU at that time. Additional PSUs and PDSUs are issued in respect of dividends payable on common shares based on the value of the PSU or PDSU at the dividend payment date. The carrying value of the PSU liability is $7 million ($4 million in 2014) recorded within other liabilities.

NOTE 18 SHARE-BASED COMPENSATION (continued)

DEFERRED SHARE UNIT PLAN

Power Financial established a Deferred Share Unit Plan for its Directors to promote a greater alignment of interests between Directors and shareholders of the Corporation. Under this Plan, each Director participating in the Plan will receive half of his annual retainer in the form of deferred share units and may elect to receive the remainder of his annual retainer and attendance fees entirely in the form of deferred share units, entirely in cash, or equally in cash and deferred share units. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the five-day-average closing price on the Toronto Stock Exchange of the common shares of the Corporation on the last five days of the fiscal quarter (the value of a deferred share unit). A Director will receive additional deferred share units in respect of dividends payable on the common shares, based on the value of a deferred share unit on the date on which the dividends were paid on the common shares. A deferred share unit is payable, at the time a Director's membership on the Board is terminated (provided the Director is not then a director, officer or employee of an affiliate of the Corporation), or in the event of the death of a Director, by a lump-sum cash payment, based on the value of a deferred share unit at that time. At December 31, 2015, the value of the deferred share units outstanding was $17 million ($19 million in 2014). Alternatively, Directors may participate in the Share Purchase Plan for Directors.

EMPLOYEE SHARE PURCHASE PROGRAM

Power Financial established an Employee Share Purchase Program, giving employees the opportunity to subscribe for up to 6% of their gross salary to purchase Subordinate Voting Shares of Power Corporation of Canada on the open market and to have Power Financial invest, on the employee's behalf, up to an equal amount.

OTHER SHARE-BASED AWARDS OF SUBSIDIARIES

The subsidiaries of the Corporation have also established other share-based awards for their directors, management and employees. Some of these share-based awards are cash settled and included within other liabilities on the balance sheets. The compensation expense related to these subsidiary share-based awards is recorded in operating and administrative expenses on the statements of earnings.

NOTE 19 NON-CONTROLLING INTERESTS

The Corporation has controlling equity interests in Lifeco and IGM as at December 31, 2015 and December 31, 2014. The non-controlling interests of Lifeco and IGM and their subsidiaries reflected in the balance sheets are as follows:

	December 31, 2015			December 31, 2014		
	Lifeco	IGM	Total	Lifeco	IGM	Total
Non-controlling interests, beginning of year	9,973	1,910	11,883	9,064	1,877	10,941
Earnings allocated to non-controlling interests	1,039	298	1,337	957	291	1,248
Other comprehensive income (loss) allocated to non-controlling interests	611	5	616	121	(22)	99
Dividends	(500)	(211)	(711)	(478)	(215)	(693)
Issuance of preferred shares	–	–	–	200	–	200
Change in ownership interest and other [(1)]	(112)	(161)	(273)	109	(21)	88
Non-controlling interests, end of year	11,011	1,841	12,852	9,973	1,910	11,883

(1) Changes in ownership interest and other includes: repurchase and issuance of common shares by subsidiaries.

The carrying value of non-controlling interests consists of the following:

	December 31, 2015			December 31, 2014		
	Lifeco	IGM	Total	Lifeco	IGM	Total
Common shareholders	5,886	1,691	7,577	4,979	1,760	6,739
Preferred shareholders	2,514	150	2,664	2,514	150	2,664
Participating account surplus	2,611	–	2,611	2,480	–	2,480
	11,011	1,841	12,852	9,973	1,910	11,883

As at December 31, 2015, Power Financial and IGM held 67.4% and 4.0%, respectively, of Lifeco's common shares, representing approximately 65.0% of the voting rights attached to the outstanding Lifeco voting shares.

Lifeco and IGM's financial information as at and for the year ended December 31, 2015 can be obtained from their publicly available financial statements. Summarized financial information for Lifeco and IGM is as follows:

	2015		2014	
	Lifeco	IGM	Lifeco	IGM
Balance sheet				
Assets	399,935	14,831	356,709	14,417
Liabilities	374,675	9,983	334,812	9,576
Equity	25,260	4,848	21,897	4,841
Comprehensive income				
Net earnings	3,011	781	2,761	762
Other comprehensive income (loss)	1,897	78	325	(28)
Cash flows				
Operating activities	5,123	622	5,443	741
Financing activities	(1,683)	(420)	(1,685)	625
Investing activities	(3,424)	(434)	(4,129)	(1,232)

NOTE 20 CAPITAL MANAGEMENT

As a holding company, Power Financial's objectives in managing its capital are to:

- provide attractive long-term returns to shareholders of the Corporation;
- provide sufficient financial flexibility to pursue its growth strategy to invest on a timely basis in its operating companies and other investments as opportunities present; and
- maintain an appropriate credit rating to ensure stable access to the capital markets.

The Corporation manages its capital taking into consideration the risk characteristics and liquidity of its holdings. In order to maintain or adjust its capital structure, the Corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue capital.

The capital structure of the Corporation consists of perpetual preferred shares, debentures, common shareholders' equity and non-controlling interests. The Corporation views perpetual preferred shares as a permanent and cost-effective source of capital. The Corporation is a long-term investor and as such holds positions in long-term investments as well as cash and fixed income securities for liquidity purposes.

The Board of Directors of the Corporation is responsible for capital management. Management of the Corporation is responsible for establishing capital management procedures and for implementing and monitoring its capital plans. The Board of Directors of the Corporation reviews and approves capital transactions such as the issuance, redemption and repurchase of common shares, perpetual preferred shares and debentures. The boards of directors of the public subsidiaries, as well as those of Pargesa and Groupe Bruxelles Lambert, are responsible for their respective company's capital management.

The Corporation itself is not subject to externally imposed regulatory capital requirements. However, Lifeco and certain of its main subsidiaries and IGM's subsidiaries are subject to regulatory capital requirements and they manage their capital as described below.

LIFECO

Lifeco manages its capital on both a consolidated basis as well as at the individual operating subsidiary level. The primary objectives of Lifeco's capital management strategy are:

- to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate;
- to maintain strong credit and financial strength ratings of Lifeco ensuring stable access to capital markets; and
- to provide an efficient capital structure to maximize shareholder value in the context of Lifeco's operational risks and strategic plans.

Lifeco has established policies and procedures designed to identify, measure and report all material risks. Management of Lifeco is responsible for establishing capital management procedures for implementing and monitoring the capital plan.

NOTE 20 CAPITAL MANAGEMENT (continued)

Lifeco's subsidiaries Great-West Life, Great-West Life & Annuity and Canada Life Limited are subject to minimum regulatory capital requirements. Lifeco's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the relevant jurisdictions in which they operate:

- In Canada, the Office of the Superintendent of Financial Institutions has established a capital adequacy measurement for life insurance companies incorporated under the *Insurance Companies Act* (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR). As at December 31, 2015, the MCCSR ratio for Great-West Life was 238% (224% at December 31, 2014).
- At December 31, 2015, the Risk-Based Capital ratio (RBC) of Great-West Life & Annuity, Lifeco's regulated U.S. operating company, was estimated to be 441% of the Company Action Level set by the National Association of Insurance Commissioners. Great-West Life & Annuity reports its RBC ratio annually to U.S. insurance regulators.
- In the United Kingdom, Canada Life Limited is required to satisfy the capital resources requirements set out in the Integrated Prudential Sourcebook, part of the Prudential Regulatory Authority Handbook. The capital requirements are prescribed by a formulaic capital requirement (Pillar 1) and an individual capital adequacy framework which requires an entity to self-assess an appropriate amount of capital it should hold, based on the risks encountered from its business activities. At the end of 2015, Canada Life Limited complied with the minimum capital resource requirements in the United Kingdom. During the year, Lifeco's European-regulated insurance and reinsurance businesses have been preparing for the implementation of the new Solvency II regulations, effective January 1, 2016.
- Other foreign operations and foreign subsidiaries of Lifeco are required to comply with local capital or solvency requirements in their respective jurisdictions. At December 31, 2015 and 2014, Lifeco maintained capital levels above the minimum local regulatory requirements in each of its other foreign operations.

IGM FINANCIAL

IGM's capital management objective is to maximize shareholder returns while ensuring that IGM is capitalized in a manner which appropriately supports regulatory capital requirements, working capital needs and business expansion. IGM's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. IGM regularly assesses its capital management practices in response to changing economic conditions.

IGM's capital is primarily used in its ongoing business operations to support working capital requirements, long-term investments made by IGM, business expansion and other strategic objectives.

The IGM subsidiaries that are subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. These IGM subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. IGM subsidiaries have complied with all regulatory capital requirements.

NOTE 21 RISK MANAGEMENT

The Corporation and its subsidiaries have established policies, guidelines and procedures designed to identify, measure, monitor and mitigate risks associated with financial instruments. The key risks related to financial instruments are liquidity risk, credit risk and market risk.

- Liquidity risk is the risk that the Corporation and its subsidiaries will not be able to meet all cash outflow obligations as they come due.
- Credit risk is the potential for financial loss to the Corporation and its subsidiaries if a counterparty in a transaction fails to meet its obligations.
- Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risks: currency risk, interest rate risk and equity price risk.
  - Currency risk relates to the Corporation, its subsidiaries and its jointly controlled corporations and associates operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.
  - Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.
  - Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets.

This note to the financial statements includes estimates of sensitivities and risk exposure measures for certain risks, such as the sensitivity due to specific changes in interest rate levels projected and market prices as at the valuation date. Actual results can differ significantly from these estimates for a variety of reasons, including:

- assessment of the circumstances that led to the scenario may lead to changes in (re)investment approaches and interest rate scenarios considered;
- changes in actuarial, investment return and future investment activity assumptions;
- actual experience differing from the assumptions;
- changes in business mix, effective tax rates and other market factors;
- interactions among these factors and assumptions when more than one changes; and
- the general limitations of internal models.

For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined above. Given the nature of these calculations, the Corporation cannot provide assurance that the actual impact on net earnings will be as indicated.

POWER FINANCIAL

Liquidity risk

Power Financial is a holding company. As such, corporate cash flows are principally made up of dividends received from its subsidiaries and jointly controlled corporation, and income from investments, less operating expenses, financing charges, income taxes and payment of dividends to its common and preferred shareholders. The ability of Lifeco and IGM, which are also holding companies, to meet their obligations and pay dividends is dependent upon receipt of dividends from their subsidiaries.

The Corporation regularly reviews its liquidity requirements and seeks to maintain a sufficient level of liquidity to meet its operating expenses, financing charges and payment of preferred share dividends for a reasonable period of time. If required, the ability of Power Financial to arrange additional financing in the future will depend in part upon prevailing market conditions as well as the business performance of Power Financial and its subsidiaries.

NOTE 21 RISK MANAGEMENT (continued)

Principal payments on debentures (other than those of Lifeco and IGM discussed below) of $250 million due after five years represent the only significant contractual liquidity requirement of Power Financial.

Power Financial's management of liquidity risk has not changed materially since December 31, 2014.

Credit risk

Fixed income securities and derivatives are subject to credit risk. The Corporation mitigates credit risk on its fixed income securities by adhering to an investment policy that establishes guidelines which provide exposure limits by defining admissible securities, minimum rating and concentration limits.

Fixed income securities, which are included in investments and in cash and cash equivalents, consist primarily of bonds, bankers' acceptances and highly liquid temporary deposits with Canadian chartered banks and banks in jurisdictions where Power Financial operates as well as bonds and short-term securities of, or guaranteed by, the Canadian or U.S. governments. The Corporation regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

Derivatives continue to be used on a basis consistent with the risk management guidelines of the Corporation and are monitored by the Corporation for effectiveness as economic hedges even if specific hedge accounting requirements are not met. The Corporation regularly reviews the credit ratings of derivative financial instrument counterparties. Derivative contracts are over-the-counter with counterparties that are highly rated financial institutions.

Power Financial's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and derivatives have not changed materially since December 31, 2014.

Market risk

Power Financial's financial instruments are comprised of cash and cash equivalents, fixed income securities and debentures.

a) Currency risk

In managing its own cash and cash equivalents as well as fixed income securities Power Financial may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Financial may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at December 31, 2015, approximately 88% of Power Financial's cash and cash equivalents and fixed income securities were denominated in Canadian dollars.

Power Financial is exposed through Parjointco to foreign exchange risk as a result of Parjointco's investment in Pargesa, a company whose functional currency is the Swiss franc. Pargesa itself is exposed to foreign exchange through its subsidiary to Euros. Foreign currency translation gains and losses from Pargesa are recorded in other comprehensive income.

b) Interest rate risk

Power Financial's financial instruments do not have significant exposure to interest rate risk.

c) Equity price risk

Power Financial's financial instruments do not have significant exposure to equity price risk.

NOTE 21 RISK MANAGEMENT (continued)

Pargesa indirectly holds substantial investments classified as available for sale; unrealized gains and losses on these investments are recorded in other comprehensive income until realized. These investments are reviewed periodically to determine whether there is objective evidence of an impairment in value.

LIFECO

The risk committee of the board of directors of Lifeco is responsible for the oversight of Lifeco's key risks.

Liquidity risk

The following policies and procedures are in place to manage liquidity risk:

- Lifeco closely manages operating liquidity through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 69% (approximately 70% in 2014) of insurance and investment contract liabilities are non-cashable prior to maturity or subject to fair value adjustments.
- Management of Lifeco closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit or via capital market transactions. Lifeco maintains $350 million of liquidity at the Lifeco level through committed lines of credit with Canadian chartered banks. As well, Lifeco maintains a $150 million liquidity facility at Great-West Life, a US$500 million revolving credit agreement with a syndicate of banks for use by Putnam, and a US$50 million line of credit at Great-West Life & Annuity.

In the normal course of business, Lifeco enters into contracts that give rise to commitments of future minimum payments that impact short-term and long-term liquidity. The following table summarizes the principal repayment schedule of certain of Lifeco's financial liabilities.

	Payments due by period						
December 31, 2015	1 year	2 years	3 years	4 years	5 years	Over 5 years	Total
Debentures and other debt instruments	467	300	200	–	500	3,950	5,417
Capital trust debentures [(1)]	–	–	–	–	–	150	150
Purchase obligations	85	45	33	30	27	7	227
Pension contributions	198	–	–	–	–	–	198
	750	345	233	30	527	4,107	5,992

(1) Payments due have not been reduced to reflect that Lifeco held capital trust securities of $37 million principal amount ($50 million carrying value).

Credit risk

The following policies and procedures are in place to manage credit risk:

- Investment guidelines are in place that require only the purchase of investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company.
- Investment guidelines specify minimum and maximum limits for each asset class. Credit ratings are determined by recognized external credit rating agencies and/or internal credit review.
- Investment guidelines also specify collateral requirements.
- Portfolios are monitored continuously, and reviewed regularly with the risk committee and the investment committee of the board of directors of Lifeco.

NOTE 21 RISK MANAGEMENT (continued)

- Credit risk associated with derivative instruments is evaluated quarterly based on conditions that existed at the balance sheet date, using practices that are at least as conservative as those recommended by regulators.
- Lifeco is exposed to credit risk relating to premiums due from policyholders during the grace period specified by the insurance policy or until the policy is paid up or terminated. Commissions paid to agents and brokers are netted against amounts receivable, if any.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of credit risk is managed by following policy guidelines set each year by the board of directors of Lifeco. Management of Lifeco continuously monitors and performs an assessment of the creditworthiness of reinsurers.

a) Maximum exposure to credit risk for Lifeco

The following table summarizes Lifeco's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	December 31, 2015	December 31, 2014
Cash and cash equivalents	2,813	2,498
Bonds		
Fair value through profit or loss	86,503	80,000
Available for sale	11,535	9,990
Loans and receivables	16,905	13,178
Mortgage loans	22,021	20,546
Loans to policyholders	8,694	7,711
Funds held by ceding insurers (1)	15,512	12,154
Reinsurance assets	5,131	5,151
Interest due and accrued	1,430	1,286
Accounts receivable	1,420	1,172
Premiums in course of collection	703	598
Trading account assets	590	405
Finance leases receivable	293	285
Other financial assets (2)	772	715
Derivative assets	461	652
Total balance sheet maximum credit exposure	174,783	156,341

(1) Includes $13,830 million as at December 31, 2015 ($10,758 million as at December 31, 2014) of funds held by ceding insurers where Lifeco retains the credit risk of the assets supporting the liabilities ceded (see Note 6).

(2) Includes items such as current income taxes receivable and miscellaneous other assets of Lifeco.

Credit risk is also mitigated by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines have been implemented regarding the acceptability of types of collateral and the valuation parameters. Management of Lifeco monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. Lifeco has $107 million of collateral received as at December 31, 2015 ($52 million as at December 31, 2014) relating to derivative assets.

b) Concentration of credit risk for Lifeco

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. The characteristics of such debtors are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

NOTE 21 RISK MANAGEMENT (continued)

The following table provides details of the carrying value of bonds of Lifeco by issuer, industry sector and geographic distribution:

December 31, 2015	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Canadian federal government	5,745	4	31	5,780
Provincial, state and municipal governments	7,075	3,186	46	10,307
U.S. Treasury and other U.S. agencies	429	5,835	1,306	7,570
Other foreign governments	206	7	12,470	12,683
Government-related	3,242	–	2,112	5,354
Supranationals	415	5	680	1,100
Asset-backed securities	2,607	3,581	595	6,783
Residential mortgage-backed securities	64	204	230	498
Banks	1,852	382	2,854	5,088
Other financial institutions	834	2,061	2,644	5,539
Basic materials	416	1,228	542	2,186
Communications	596	373	771	1,740
Consumer products	2,217	2,947	2,958	8,122
Industrial products/services	1,210	1,708	1,170	4,088
Natural resources	1,453	1,444	820	3,717
Real estate	1,502	786	3,228	5,516
Transportation	2,406	1,298	1,100	4,804
Utilities	6,200	4,910	4,341	15,451
Miscellaneous	1,410	1,876	538	3,824
Short-term bonds	3,241	216	1,336	4,793
	43,120	32,051	39,772	114,943

December 31, 2014	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Canadian federal government	5,356	3	46	5,405
Provincial, state and municipal governments	6,926	2,567	51	9,544
U.S. Treasury and other U.S. agencies	352	4,786	937	6,075
Other foreign governments	198	24	11,865	12,087
Government-related	2,895	–	2,021	4,916
Supranationals	433	8	643	1,084
Asset-backed securities	2,648	3,161	789	6,598
Residential mortgage-backed securities	52	236	206	494
Banks	2,025	346	2,747	5,118
Other financial institutions	647	1,705	2,461	4,813
Basic materials	316	1,087	349	1,752
Communications	571	265	693	1,529
Consumer products	2,030	2,558	2,305	6,893
Industrial products/services	1,078	1,292	718	3,088
Natural resources	1,250	984	710	2,944
Real estate	1,407	452	2,849	4,708
Transportation	1,967	985	898	3,850
Utilities	5,460	4,206	3,912	13,578
Miscellaneous	1,416	1,281	456	3,153
Short-term bonds	3,616	236	1,687	5,539
	40,643	26,182	36,343	103,168

NOTE 21 RISK MANAGEMENT (continued)

The following table provides details of the carrying value of mortgage loans of Lifeco by geographic location:

December 31, 2015	Single-family residential	Multi-family residential	Commercial	Total
Canada	1,962	3,674	7,055	12,691
United States	–	1,770	3,162	4,932
Europe	–	377	4,021	4,398
	1,962	5,821	14,238	22,021

December 31, 2014	Single-family residential	Multi-family residential	Commercial	Total
Canada	1,916	3,660	7,017	12,593
United States	–	1,324	2,888	4,212
Europe	–	338	3,403	3,741
	1,916	5,322	13,308	20,546

c) Asset quality

Bond Portfolio Quality	December 31, 2015	December 31, 2014
AAA	36,434	34,332
AA	20,364	18,954
A	35,623	31,133
BBB	20,984	17,370
BB and lower	1,538	1,379
Total bonds	114,943	103,168

Derivative Portfolio Quality	December 31, 2015	December 31, 2014
Over-the-counter contracts (counterparty credit ratings):		
AAA	–	10
AA	209	66
A	248	576
Exchange-traded	4	–
Total	461	652

d) Loans of Lifeco past due, but not impaired

Loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management of Lifeco has reasonable assurance of collection of the full amount of principal and interest due. The following table provides carrying values of the loans past due, but not impaired:

	December 31, 2015	December 31, 2014
Less than 30 days	33	7
30–90 days	2	5
Greater than 90 days	3	3
Total	38	15

NOTE 21 RISK MANAGEMENT (continued)

e) Future asset credit losses

The following outlines the future asset credit losses provided for in insurance and investment contract liabilities. These amounts are in addition to the allowance for asset losses included with assets:

	December 31, 2015	December 31, 2014
Participating	1,395	1,186
Non-participating	2,163	1,947
	3,558	3,133

Market risk

a) Currency risk

If the assets backing insurance and investment contract liabilities are not matched by currency, changes in foreign exchange rates can expose Lifeco to the risk of foreign exchange losses not offset by liability decreases. Lifeco has net investments in foreign operations. In addition, Lifeco's debt obligations are mainly denominated in Canadian dollars. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in other comprehensive income. Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates impacts Lifeco's total equity. Correspondingly, Lifeco's book value per share and capital ratios monitored by rating agencies are also impacted. The following policies and procedures are in place to mitigate Lifeco's exposure to currency risk:

- Lifeco uses financial measures such as constant currency calculations to monitor the effect of currency translation fluctuations.
- Investments are normally made in the same currency as the liabilities supported by those investments. Segmented investment guidelines include maximum tolerances for unhedged currency mismatch exposures.
- Foreign currency assets acquired to back liabilities are normally converted back to the currency of the liability using foreign exchange contracts.
- A 10% weakening of the Canadian dollar against foreign currencies would be expected to increase non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount, resulting in an immaterial change to net earnings. A 10% strengthening of the Canadian dollar against foreign currencies would be expected to decrease non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount, resulting in an immaterial change in net earnings.

NOTE 21 RISK MANAGEMENT (continued)

b) Interest rate risk

The following policies and procedures are in place to mitigate Lifeco's exposure to interest rate risk:

- Lifeco uses a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.
- Interest rate risk is managed by investing in assets that are suitable for the products sold.
- Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims), Lifeco generally invests in real return instruments to hedge its real dollar liability cash flows. Some protection against changes in the inflation index is achieved as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.
- For products with fixed and highly predictable benefit payments, investments are made in fixed income assets or real estate whose cash flows closely match the liability product cash flows. Where assets are not available to match certain period cash flows, such as long-tail cash flows, a portion of these are invested in equities and the rest are duration matched. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. To the extent these cash flows are matched, protection against interest rate change is achieved and any change in the fair value of the assets will be offset by a similar change in the fair value of the liabilities.
- For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments or equities, as described below.
- The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Projected cash flows from the current assets and liabilities are used in the CALM to determine insurance contract liabilities. Valuation assumptions have been made regarding rates of returns on supporting assets, fixed income, equity and inflation. The valuation assumptions use best estimates of future reinvestment rates and inflation assumptions with an assumed correlation together with margins for adverse deviation set in accordance with professional standards. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Projected cash flows from fixed income assets used in actuarial calculations are reduced to provide for potential asset default losses. The net effective yield rate reduction averaged 0.18% (0.18% in 2014). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

Testing under a number of interest rate scenarios (including increasing, decreasing and fluctuating rates) is done to assess reinvestment risk. The total provision for interest rates is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries-prescribed scenarios.

The range of interest rates covered by these provisions is set in consideration of long-term historical results and is monitored quarterly with a full review annually. An immediate 1% parallel shift in the yield curve would not have a material impact on Lifeco's view of the range of interest rates to be covered by the provisions. If sustained however, the parallel shift could impact Lifeco's range of scenarios covered.

NOTE 21 RISK MANAGEMENT (continued)

The total provision for interest rates also considers the impact of the Canadian Institute of Actuaries-prescribed scenarios:

- The effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios would not change the total provision for interest rates.
- The effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios would not change the total provision for interest rates.

Another way of measuring the interest rate risk associated with this assumption is to determine the effect on the insurance and investment contract liabilities impacting the shareholders' earnings of Lifeco of a 1% change in Lifeco's view of the range of interest rates to be covered by these provisions:

- The effect of an immediate 1% increase in the low and high end of the range of interest rates recognized in the provisions would be to decrease these insurance and investment contract liabilities by approximately $163 million, causing an increase in net earnings of approximately $109 million.
- The effect of an immediate 1% decrease in the low and high end of the range of interest rates recognized in the provisions would be to increase these insurance and investment contract liabilities by approximately $614 million, causing a decrease in net earnings of approximately $430 million.

c) Equity price risk

Lifeco has investment policy guidelines in place that provide for prudent investment in equity markets with clearly defined limits to mitigate price risk.

The risks associated with segregated fund guarantees have been mitigated through a hedging program for lifetime Guaranteed Minimum Withdrawal Benefit guarantees using equity futures, currency forwards, and interest rate derivatives. For policies with segregated fund guarantees, Lifeco generally determines insurance contract liabilities at a conditional tail expectation of 75 (CTE75) level. In other words, Lifeco determines insurance contract liabilities at a level that covers the average loss in the worst 25% part of the loss distribution.

Some insurance and investment contract liabilities are supported by investment properties, common stocks and private equities, for example, segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity fair values. There will be additional impacts on these liabilities as equity values fluctuate. A 10% increase in equity values would be expected to additionally decrease non-participating insurance and investment contract liabilities by approximately $53 million, causing an increase in net earnings of approximately $45 million. A 10% decrease in equity values would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately $139 million, causing a decrease in net earnings of approximately $108 million.

The best estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows. A 1% increase in the best estimate assumption would be expected to decrease non-participating insurance contract liabilities by approximately $534 million, causing an increase in net earnings of approximately $433 million. A 1% decrease in the best estimate assumption would be expected to increase non-participating insurance contract liabilities by approximately $573 million, causing a decrease in net earnings of approximately $457 million.

NOTE 21 RISK MANAGEMENT (continued)

IGM FINANCIAL

The board of directors of IGM provides oversight and carries out its risk management mandate through various committees.

Liquidity risk

IGM's liquidity management practices include:

- Maintaining liquid assets and lines of credit to satisfy near-term liquidity needs.
- Ensuring effective controls over liquidity management processes.
- Performing regular cash forecasts and stress testing.
- Regular assessment of capital market conditions and IGM's ability to access bank and capital market funding.
- Ongoing efforts to diversify and expand long-term mortgage funding sources.
- Oversight of liquidity by management and by committees of the board of directors of IGM.

A key liquidity requirement for IGM is the funding of commissions paid on the sale of investment funds. Commissions on the sale of investment funds continue to be paid from operating cash flows.

IGM also maintains sufficient liquidity to fund and temporarily hold mortgages pending sale or securitization to long-term funding sources. Through its mortgage banking operations, residential mortgages are sold to third parties including certain mutual funds, institutional investors through private placements, Canadian bank-sponsored securitization trusts, and by issuance and sale of National Housing Act Mortgage-Backed Securities (NHA MBS) securities including sales to Canada Housing Trust under the Canada Mortgage Bond Program (CMB Program).

Certain subsidiaries of IGM are approved issuers of NHA MBS and are approved sellers into the CMB Program. Capacity for sales under the CMB Program consists of participation in new CMB issues and reinvestment of principal repayments held in principal reinvestment accounts. IGM maintains committed capacity within certain Canadian bank-sponsored securitization trusts.

IGM's contractual maturities of certain liabilities were as follows:

December 31, 2015	Demand	Less than 1 year	1–5 years	After 5 years	Total
Derivative financial instruments	–	19	39	–	58
Deposits and certificates	292	7	8	3	310
Obligations to securitization entities	–	1,235	5,799	58	7,092
Long-term debt	–	–	525	800	1,325
Pension contributions [(1)]	–	19	–	–	19
Total contractual obligations	292	1,280	6,371	861	8,804

(1) The next required actuarial valuation will be completed based on a measurement date of December 31, 2016. Pension funding requirements beyond 2016 are subject to significant variability and will be determined based on future actuarial valuations. Pension contribution decisions are subject to change, as contributions are affected by many factors, including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy.

NOTE 21 RISK MANAGEMENT (continued)

In addition to IGM's current balance of cash and cash equivalents, liquidity is available through IGM's lines of credit. IGM's lines of credit with various Schedule I Canadian chartered banks totalled $525 million as at December 31, 2015, unchanged from December 31, 2014. The lines of credit as at December 31, 2015 consisted of committed lines of $350 million ($350 million in 2014) and uncommitted lines of $175 million ($175 million in 2014). IGM has accessed its uncommitted lines of credit in the past; however, any advances made by the banks under the uncommitted lines are at the banks' sole discretion. As at December 31, 2015 and 2014, IGM was not utilizing its committed lines of credit or its uncommitted lines of credit.

IGM's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2014.

Credit risk

IGM's cash and cash equivalents, securities holdings, mortgage and investment loan portfolios, and derivatives are subject to credit risk. IGM monitors its credit risk management practices continuously to evaluate their effectiveness.

At December 31, 2015, IGM's cash and cash equivalents of $983 million ($1,216 million in 2014) consisted of cash balances of $105 million ($107 million in 2014) on deposit with Canadian chartered banks and cash equivalents of $878 million ($1,109 million in 2014). Cash equivalents are composed of Government of Canada treasury bills totalling $132 million ($191 million in 2014), provincial government and government-guaranteed commercial paper of $447 million ($666 million in 2014) and bankers' acceptances issued by Canadian chartered banks of $299 million ($252 million in 2014). IGM manages credit risk related to cash and cash equivalents by adhering to its investment policy that outlines credit risk parameters and concentration limits. IGM regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

As at December 31, 2015, residential mortgages, recorded on IGM's balance sheet, of $7.4 billion ($7.0 billion in 2014) consisted of $7.0 billion sold to securitization programs ($6.6 billion in 2014), $384 million held pending sale or securitization ($366 million in 2014) and $28 million related to IGM's intermediary operations ($30 million in 2014).

IGM manages credit risk related to residential mortgages through:

- Adhering to its lending policy and underwriting standards;
- Its loan servicing capabilities;
- Use of client-insured mortgage default insurance and mortgage portfolio default insurance held by IGM; and
- Its practice of originating its mortgages exclusively through its own network of Mortgage Planning Specialists and Investors Group Consultants as part of a client's comprehensive financial plan.

In certain instances, credit risk is also limited by the terms and nature of securitization transactions as described below:

- Under the NHA MBS program totalling $4.6 billion ($4.6 billion in 2014), IGM is obligated to make timely payment of principal and coupons irrespective of whether such payments were received from the mortgage borrower. However, as required by the NHA MBS program, 100% of the loans are insured by an approved insurer.

NOTE 21 RISK MANAGEMENT (continued)

- Credit risk for mortgages securitized by transfer to bank-sponsored securitization trusts totalling $2.4 billion ($2.0 billion in 2014) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were $48 million ($35 million in 2014) and $39 million ($30 million in 2014), respectively, at December 31, 2015. Cash reserve accounts are reflected on the balance sheets, whereas rights to future net interest income are not reflected on the balance sheets and will be recorded over the life of the mortgages. This risk is further mitigated by insurance with 36.6% of mortgages held in ABCP Trusts insured at December 31, 2015 (51.0% in 2014).

At December 31, 2015, residential mortgages recorded on the balance sheet were 76.8% insured (83.7% in 2014). At December 31, 2015, impaired mortgages on these portfolios were $3 million, compared to $2 million at December 31, 2014. Uninsured nonperforming mortgages over 90 days on these portfolios were $1 million at December 31, 2015, compared to nil at December 31, 2014.

IGM also retains certain elements of credit risk on mortgage loans sold to the Investors Mortgage and Short Term Income Fund and to the Investors Canadian Corporate Bond Fund through an agreement to repurchase mortgages in certain circumstances benefiting the funds. These loans are not recorded on IGM's balance sheet as IGM has transferred substantially all of the risks and rewards of ownership associated with these loans.

IGM regularly reviews the credit quality of the mortgages and the adequacy of the collective allowance for credit losses.

IGM's collective allowance for credit losses was $1 million at December 31, 2015 ($1 million as at December 31, 2014), and is considered adequate by management to absorb all credit-related losses in the mortgage portfolios based on: i) historical credit performance experience and recent trends, ii) current portfolio credit metrics and other relevant characteristics, and iii) regular stress testing of losses under adverse real estate market conditions.

IGM's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage portfolios have not changed materially since December 31, 2014.

IGM is exposed to credit risk through the derivative contracts it utilizes to hedge interest rate risk, to facilitate securitization transactions, and to hedge market risk related to certain stock-based compensation arrangements. These derivatives are discussed more fully under the market risk section below.

To the extent that the fair value of the derivatives is in a gain position, IGM is exposed to the credit risk that its counterparties fail to fulfill their obligations under these arrangements.

IGM's derivative activities are managed in accordance with its investment policy, which includes counterparty limits and other parameters to manage counterparty risk. The aggregate credit risk exposure related to derivatives that are in a gain position of $58 million ($43 million in 2014) does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements and including rights to future net interest income, was $1 million at December 31, 2015 ($3 million in 2014). Counterparties are all Canadian Schedule I chartered banks and, as a result, management has determined that IGM's overall credit risk related to derivatives was not significant at December 31, 2015. Management of credit risk related to derivatives has not changed materially since December 31, 2014.

NOTE 21 RISK MANAGEMENT (continued)

Market risk

a) Currency risk

IGM's financial instruments are generally denominated in Canadian dollars, and do not have significant exposure to changes in foreign exchange rates.

b) Interest rate risk

IGM is exposed to interest rate risk on its loan portfolio and on certain of the derivative financial instruments used in IGM's mortgage banking and intermediary operations.

IGM manages interest rate risk associated with its mortgage banking operations by entering into interest rate swaps with Canadian Schedule I chartered banks as follows:

- IGM has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. As previously discussed, as part of the CMB Program, IGM is party to a swap whereby it is entitled to receive investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a negative fair value of $47 million (negative $26 million in 2014) and an outstanding notional value of $740 million at December 31, 2015 ($437 million in 2014). IGM enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages and reinvestment returns decline. The fair value of these swaps totalled $54 million ($35 million in 2014), on an outstanding notional amount of $1.8 billion at December 31, 2015 ($2.0 billion in 2014). The net fair value of these swaps of $7 million at December 31, 2015 ($9 million in 2014) is recorded on the balance sheet and has an outstanding notional amount of $2.6 billion at December 31, 2015 ($2.4 billion in 2014).
- IGM is exposed to the impact that changes in interest rates may have on the value of mortgages committed to or held pending sale or securitization to long-term funding sources. IGM enters into interest rate swaps to hedge the interest rate risk related to funding costs for mortgages held by IGM pending sale or securitization. The fair value of these swaps was nil (nil in 2014) on an outstanding notional amount of $88 million at December 31, 2015 ($101 million in 2014).

As at December 31, 2015, the impact to annual net earnings of a 100-basis-point change in interest rates would have been a decrease of approximately $1 million (a decrease of $2 million in 2014). IGM's exposure to and management of interest rate risk has not changed materially since December 31, 2014.

c) Equity price risk

IGM is exposed to equity price risk on its proprietary investment funds which are classified as available-for-sale securities and its equity securities and proprietary investment funds which are classified as fair value through profit or loss. Unrealized gains and losses on available-for-sale securities are recorded in other comprehensive income until they are realized or until management of IGM determines there is objective evidence of impairment in value, at which time they are recorded in the statements of earnings.

IGM sponsors a number of deferred compensation arrangements where payments to participants are linked to the performance of the common shares of IGM Financial Inc. IGM hedges this risk through the use of forward agreements and total return swaps.

Risks related to assets under management

Risks related to the performance of the equity markets, changes in interest rates and changes in foreign currencies relative to the Canadian dollar can have a significant impact on the level and mix of assets under management. These changes in assets under management directly impact earnings of IGM.

NOTE 22 OPERATING AND ADMINISTRATIVE EXPENSES

	Years ended December 31	
	2015	2014
Salaries and other employee benefits	3,352	2,934
General and administrative expenses	1,863	1,525
Amortization, depreciation and impairment	263	233
Premium taxes	339	339
Restructuring and acquisition expenses	66	50
Client distributions and other costs [1]	–	81
	5,883	5,162

[1] In the third quarter of 2012, IGM introduced investment solutions for clients with household investments in IGM's funds in excess of $0.5 million. At December 31, 2014, an accrual of $81 million was recorded related to these lower fee investment solutions. This amount primarily reflects distributions to clients who did not transfer to these lower-priced solutions when eligible.

NOTE 23 FINANCING CHARGES

	Years ended December 31	
	2015	2014
Interest on debentures and other debt instruments	370	374
Interest on capital trust debentures	11	11
Other	32	28
	413	413

NOTE 24 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

CHARACTERISTICS, FUNDING AND RISK

The Corporation and its subsidiaries maintain funded defined benefit pension plans for certain employees and advisors as well as unfunded supplementary employee retirement plans (SERP) for certain employees. The Corporation's subsidiaries also maintain defined contribution pension plans for eligible employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average earnings. For most plans, active plan participants share in the cost by making contributions in respect of current service. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The determination of the defined benefit obligation reflects pension benefits, in accordance with the terms of the plans, and assuming the plans are not terminated. The assets supporting the funded pension plans are held in separate trusteed pension funds. The obligations for the wholly unfunded plans are supported by assets of the Corporation and its subsidiaries.

The significant defined benefit plans of Lifeco's subsidiaries and IGM are closed to new entrants. New hires are only eligible for defined contribution benefits. As a result, defined benefit plan exposure will continue to be reduced in future years.

The defined contribution pension plans provide pension benefits based on accumulated employee and employer contributions. Contributions to these plans are a set percentage of employees' annual income and may be subject to certain vesting requirements.

The Corporation and its subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. These post-employment benefits are not pre-funded. The obligations for these benefits are supported by assets of the Corporation and its subsidiaries.

The Corporation and its subsidiaries have pension and benefit committees or a trustee arrangement that provides oversight for the benefit plans. The benefit plans are monitored on an ongoing basis to assess the benefit, funding and investment policies, financial status, and funding requirements of the Corporation and its subsidiaries. Significant changes to benefit plans require approval.

The Corporation and its subsidiaries' funding policy for the funded pension plans is to make annual contributions equal to or greater than those required by the applicable regulations and plan provisions that govern the funding of the plans. Where funded plans have a net defined benefit asset, the Corporation and its subsidiaries determine if an economic benefit exists in the form of potential reductions in future contributions and in the form of surplus refunds, where permitted by applicable regulation and plan provisions.

By their design, the defined benefit plans expose the Corporation and its subsidiaries to the typical risks faced by defined benefit plans, such as investment performance, changes to the discount rates used to value the obligations, longevity of plan members, and future inflation. Pension and benefit risk is managed by regular monitoring of the plans, applicable regulations and other factors that could impact the expenses and cash flows of the Corporation and its subsidiaries.

NOTE 24 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (continued)

PLAN ASSETS, BENEFIT OBLIGATION AND FUNDED STATUS

	December 31, 2015		December 31, 2014	
	Pension plans	Other post-employment benefits	Pension plans	Other post-employment benefits
Change in fair value of plan assets				
Fair value of plan assets, beginning of year	5,960	–	5,349	–
Interest income	214	–	251	–
Employee contributions	25	–	25	–
Employer contributions	130	21	164	20
Return on assets greater than interest income	86	–	438	–
Benefits paid	(231)	(21)	(238)	(20)
Administrative expenses	(7)	–	(6)	–
Foreign exchange and other	275	–	(23)	–
Fair value of plan assets, end of year	6,452	–	5,960	–
Change in defined benefit obligation				
Defined benefit obligation, beginning of year	6,866	457	5,653	438
Current service cost	167	3	133	3
Employee contributions	25	–	25	–
Interest cost	246	18	261	20
Actuarial (gains) losses on:				
Financial assumption changes	(150)	(5)	938	40
Demographic assumption changes	(5)	(9)	114	(14)
Arising from member experience	1	4	(3)	(13)
Benefits paid	(231)	(21)	(238)	(20)
Past service cost and plan amendments	15	2	21	–
Foreign exchange and other	338	5	(38)	3
Defined benefit obligation, end of year	7,272	454	6,866	457
Funded status				
Fund deficit	(820)	(454)	(906)	(457)
Unrecognized amount due to asset ceiling (see below)	(83)	–	(23)	–
Accrued benefit liability	(903)	(454)	(929)	(457)

The aggregate defined benefit obligation of pension plans is as follows:

	Years ended December 31	
	2015	2014
Wholly or partly funded plans	6,803	6,406
Wholly unfunded plans	469	460

The net accrued benefit asset (liability) shown above is presented in these financial statements as follows:

	December 31, 2015			December 31, 2014		
	Pension plans	Other post-employment benefits	Total	Pension plans	Other post-employment benefits	Total
Pension benefit assets [Note 9]	250	–	250	275	–	275
Pension and other post-employment benefit liabilities [Note 15]	(1,153)	(454)	(1,607)	(1,204)	(457)	(1,661)
Accrued benefit asset (liability)	(903)	(454)	(1,357)	(929)	(457)	(1,386)

NOTE 24 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (continued)

Under International Financial Reporting Interpretations Committee (IFRIC) 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, the Corporation and its subsidiaries must assess whether the pension asset has economic benefit to the Corporation and its subsidiaries through future contribution reductions or refunds. In the event the Corporation and its subsidiaries are not entitled to a benefit, a limit or "asset ceiling" is required on the balance sheet. The following provides a breakdown of the changes in the asset ceiling.

	December 31, 2015	December 31, 2014
Asset ceiling, beginning of year	23	44
Interest on beginning-of-period asset ceiling	4	2
Change in asset ceiling	56	(23)
Asset ceiling, end of year	83	23

PENSION AND OTHER POST-EMPLOYMENT BENEFIT EXPENSE

	December 31, 2015		December 31, 2014	
	Pension plans	Other post-employment benefits	Pension plans	Other post-employment benefits
Defined benefit current service cost	167	3	133	3
Net interest cost	36	18	12	20
Past service cost and plan amendments	15	2	3	–
Administration fees	7	–	6	–
Defined contribution current service cost	54	–	42	–
Expense recognized in net earnings	279	23	196	23
Actuarial (gain) loss recognized	(154)	(10)	1,049	13
Return on assets greater than interest income	(86)	–	(438)	–
Change in asset ceiling	56	–	(23)	–
Expense (income) recognized in other comprehensive income	(184)	(10)	588	13
Total expense	95	13	784	36

In 2015, the Corporation and its subsidiaries incurred $1 million of actuarial gains ($31 million of actuarial losses in 2014) for pension plan remeasurements not included in the table shown above. This relates to the share of actuarial gains (losses) for investments in jointly controlled corporations and associates.

NOTE 24 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (continued)

ASSET ALLOCATION BY MAJOR CATEGORY WEIGHTED BY PLAN ASSETS

	Defined benefit pension plans	
Percentage (%)	December 31, 2015	December 31, 2014
Equity securities	52	52
Debt securities	36	38
All other assets	12	10
	100	100

No plan assets are directly invested in the Corporation's or subsidiaries' securities. Lifeco's plan assets include investments in segregated and other funds managed by subsidiaries of Lifeco of $4,764 million at December 31, 2015 ($4,478 million at December 31, 2014) of which $4,701 million ($4,445 million at December 31, 2014) are included in the balance sheets. Plan assets do not include any property occupied or other assets used by Lifeco. IGM's plan assets are invested in IGM's mutual funds. A portion of Power Financial's plan assets are invested in segregated funds managed by a subsidiary of Lifeco.

DETAILS OF DEFINED BENEFIT OBLIGATION

Portion of defined benefit obligation subject to future salary increases

	December 31, 2015		December 31, 2014	
	Pension plans	Other post-employment benefits	Pension plans	Other post-employment benefits
Benefit obligation without future salary increases	6,530	454	6,121	457
Effect of assumed future salary increases	742	–	745	–
Defined benefit obligation	7,272	454	6,866	457

Allocation of defined benefit obligation by membership

	December 31, 2015		December 31, 2014	
Percentage (%)	Pension plans	Other post-employment benefits	Pension plans	Other post-employment benefits
Actives	47	27	47	28
Deferred vesteds	16	–	16	–
Retirees	37	73	37	72
Total	100	100	100	100
Weighted average duration of defined benefit obligation (in years)	18.7	12.5	19.1	13.0

NOTE 24 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (continued)

CASH FLOW INFORMATION

The expected employer contributions for the year 2016 are as follows:

	Pension plans	Other post-employment benefits
Funded (wholly or partly) defined benefit plans	126	–
Unfunded defined benefit plans	22	21
Defined contribution plans	60	–
Total	208	21

ACTUARIAL ASSUMPTIONS AND SENSITIVITIES

Actuarial assumptions

	Defined benefit pension plans		Other post-employment benefits	
Percentage (%)	2015	2014	2015	2014
Range of discount rates				
To determine benefit cost	3.1 – 4.1	4.7 – 5.1	3.9 – 4.1	4.7 – 5.0
To determine accrued benefit obligation at year-end	3.1 – 4.3	3.1 – 4.1	3.9 – 4.3	3.9 – 4.1
Weighted average assumptions used to determine benefit cost [(1)]				
Discount rate	3.5	4.7	3.9	4.8
Rate of compensation increase	3.3	3.3	–	–
Weighted average assumptions used to determine accrued benefit obligation at year-end [(1)]				
Discount rate	3.8	3.5	4.1	3.9
Rate of compensation increase	3.3	3.3	–	–
Weighted average healthcare trend rates [(1)]				
Initial healthcare trend rate			5.3	5.3
Ultimate healthcare trend rate			4.5	4.5
Year ultimate trend rate is reached			2029	2029

(1) Based on the obligations of each plan.

NOTE 24 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (continued)

Sample life expectancies based on mortality assumptions

	December 31, 2015		December 31, 2014	
	Pension plans	Other post-employment benefits	Pension plans	Other post-employment benefits
Weighted average life expectancies based on mortality assumptions [(1)]:				
Male				
Age 65 in fiscal year	22.8	22.2	22.7	22.1
Age 65 in fiscal year + 30 years	25.1	23.9	25.1	23.8
Female				
Age 65 in fiscal year	24.7	24.7	24.7	24.6
Age 65 in fiscal year + 30 years	26.8	26.2	26.8	26.0

(1) Based on the obligations of each plan.

Mortality assumptions are significant in measuring the defined benefit obligation for defined benefit plans. The period of time over which benefits are assumed to be paid is based on best estimates of future mortality, including allowances for mortality improvements. This estimate is subject to considerable uncertainty and judgment is required in establishing this assumption. The mortality assumptions applied by the Corporation and its subsidiaries take into consideration average life expectancy, including allowances for future mortality improvement as appropriate, and reflect variations in such factors as age, gender and geographic location.

The mortality tables are reviewed at least annually, and assumptions are in accordance with accepted actuarial practice. Emerging plan experience is reviewed and considered in establishing the best estimate for future mortality.

Impact of changes to assumptions

December 31, 2015	1% increase	1% decrease
Defined benefit pension plans:		
Impact of a change to the discount rate	(1,122)	1,459
Impact of a change to the rate of compensation increase	344	(302)
Impact of a change to the rate of inflation	612	(583)
Other post-employment benefits:		
Impact of a change to the discount rate	(51)	63
Impact of a change to assumed medical cost trend rates	44	(37)

To measure the impact of a change in an assumption, all other assumptions were held constant. It would be expected that there would be interaction between at least some of the assumptions and therefore the sensitivity analysis presented may not be representative of the actual change.

NOTE 25 DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Corporation and its subsidiaries are end-users of various derivative financial instruments. Contracts are either exchange traded or over-the-counter with counterparties that are credit-worthy financial intermediaries.

The following table summarizes the portfolio of derivative financial instruments of the Corporation and its subsidiaries at December 31:

	Notional amount					
December 31, 2015	1 year or less	1–5 years	Over 5 years	Total	Maximum credit risk	Total fair value
Derivatives not designated as accounting hedges						
Interest rate contracts						
Swaps	1,362	2,776	1,592	5,730	225	135
Options purchased	49	190	103	342	49	49
Futures – long	2	–	–	2	–	–
Futures – short	79	80	–	159	–	–
	1,492	3,046	1,695	6,233	274	184
Foreign exchange contracts						
Forward contracts	948	–	–	948	4	(28)
Cross-currency swaps	426	2,138	6,740	9,304	143	(1,885)
	1,374	2,138	6,740	10,252	147	(1,913)
Other derivative contracts						
Equity contracts	68	–	–	68	2	2
Futures – long	13	–	–	13	–	–
Futures – short	606	–	–	606	4	1
Other forward contracts	131	–	–	131	–	–
	818	–	–	818	6	3
	3,684	5,184	8,435	17,303	427	(1,726)
Cash flow hedges						
Interest rate contracts						
Swaps	–	–	31	31	12	12
Foreign exchange contracts						
Cross-currency swaps	–	1,500	–	1,500	–	(524)
Other derivative contracts						
Forward contracts and total return swaps	10	28	–	38	1	(4)
	10	1,528	31	1,569	13	(516)
Net investment hedges						
Foreign exchange contracts						
Forward contracts	–	553	–	553	80	80
	3,694	7,265	8,466	19,425	520	(2,162)

NOTE 25 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

December 31, 2014	Notional amount				Maximum credit risk	Total fair value
	1 year or less	1–5 years	Over 5 years	Total		
Derivatives not designated as accounting hedges						
Interest rate contracts						
Swaps	1,876	2,700	1,389	5,965	411	350
Options purchased	218	182	78	478	50	50
Futures – long	10	–	–	10	–	–
Futures – short	12	–	–	12	–	–
	2,116	2,882	1,467	6,465	461	400
Foreign exchange contracts						
Forward contracts	751	–	–	751	–	(14)
Cross-currency swaps	354	2,285	5,492	8,131	169	(751)
	1,105	2,285	5,492	8,882	169	(765)
Other derivative contracts						
Equity contracts	156	–	–	156	2	(3)
Futures – long	10	–	–	10	–	–
Futures – short	317	–	–	317	1	(2)
Other forward contracts	107	–	–	107	–	–
	590	–	–	590	3	(5)
	3,811	5,167	6,959	15,937	633	(370)
Cash flow hedges						
Interest rate contracts						
Swaps	–	–	36	36	14	14
Foreign exchange contracts						
Cross-currency swaps	–	1,500	–	1,500	–	(219)
Other derivative contracts						
Forward contracts and total return swaps	11	23	1	35	3	1
	11	1,523	37	1,571	17	(204)
Net investment hedges [1]						
Foreign exchange contracts						
Forward contracts	–	491	–	491	41	41
Fair value hedges						
Interest rate contracts						
Swaps	–	18	72	90	2	1
	3,822	7,199	7,068	18,089	693	(532)

(1) During the year, Lifeco reclassified the contracts now presented in net investment hedges from foreign exchange contracts – forward contracts to conform to the current year's presentation.

The amount subject to maximum credit risk is limited to the current fair value of the instruments which are in a gain position. The maximum credit risk represents the total cost of all derivative contracts with positive values and does not reflect actual or expected losses. The total fair value represents the total amount that the Corporation and its subsidiaries would receive (or pay) to terminate all agreements at year-end. However, this would not result in a gain or loss to the Corporation and its subsidiaries as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

As at December 31, 2015, Lifeco received assets of $107 million ($52 million in 2014) as collateral for derivative contracts from counterparties and pledged assets of $608 million ($273 million in 2014) as collateral for derivative contracts to counterparties.

NOTE 25 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

INTEREST RATE CONTRACTS

Interest rate swaps, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with investment activities and insurance and investment contract liabilities and to reduce the impact of fluctuating interest rates on the mortgage banking operations and intermediary operations. Interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based.

Call options grant the Corporation and its subsidiaries the right to enter into a swap with predetermined fixed-rate payments over a predetermined time period on the exercise date. Call options are used to manage the variability in future interest payments due to a change in credited interest rates and the related potential change in cash flows due to surrenders. Call options are also used to hedge minimum rate guarantees.

FOREIGN EXCHANGE CONTRACTS

Cross-currency swaps are used in combination with other investments to manage foreign currency risk associated with investment activities, and insurance and investment contract liabilities. Under these swaps, principal amounts and fixed or floating interest payments may be exchanged in different currencies. The Corporation and its subsidiaries may also enter into certain foreign exchange forward contracts to hedge certain product liabilities, cash and cash equivalents and cash flows.

OTHER DERIVATIVE CONTRACTS

Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to periodically hedge the market risk associated with certain fee income. Equity put options are used to manage the potential credit risk impact of significant declines in certain equity markets.

Forward agreements and total return swaps are used to manage exposure to fluctuations in the total return of common shares related to deferred compensation arrangements. Forward agreements and total return swaps require the exchange of net contractual payments periodically or at maturity without the exchange of the notional principal amounts on which the payments are based. Certain of these instruments are not designated as hedges. Changes in fair value are recorded in operating and administrative expenses in the statements of earnings for those instruments not designated as hedges.

ENFORCEABLE MASTER NETTING AGREEMENTS OR SIMILAR AGREEMENTS

The Corporation and its subsidiaries enter into the International Swaps and Derivative Association's master agreements for transacting over-the-counter derivatives. The Corporation and its subsidiaries receive and pledge collateral according to the related International Swaps and Derivative Association's Credit Support Annexes. The International Swaps and Derivative Association's master agreements do not meet the criteria for offsetting on the balance sheets because they create a right of set-off that is enforceable only in the event of default, insolvency, or bankruptcy.

For exchange-traded derivatives subject to derivative clearing agreements with exchanges and clearing houses, there is no provision for set-off at default. Initial margin is excluded from the table below as it would become part of a pooled settlement process.

NOTE 25 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Lifeco's reverse repurchase agreements are also subject to right of set-off in the event of default. These transactions and agreements include master netting arrangements which provide for the netting of payment obligations between Lifeco and its counterparties in the event of default.

The following disclosure shows the potential effect on the balance sheets on financial instruments that have been shown in a gross position where right of set-off exists under certain circumstances that do not qualify for netting on the balance sheets.

December 31, 2015		Related amounts not set off in the balance sheet		
	Gross amount of financial instruments presented in the balance sheet	Offsetting counterparty position [1]	Financial collateral received / pledged [2]	Net exposure
Financial instruments (assets)				
Derivative financial instruments	520	(358)	(104)	58
Reverse repurchase agreements [3]	43	–	(43)	–
Total financial instruments (assets)	563	(358)	(147)	58
Financial instruments (liabilities)				
Derivative financial instruments	2,682	(358)	(586)	1,738
Total financial instruments (liabilities)	2,682	(358)	(586)	1,738

December 31, 2014		Related amounts not set off in the balance sheet		
	Gross amount of financial instruments presented in the balance sheet	Offsetting counterparty position [1]	Financial collateral received / pledged [2]	Net exposure
Financial instruments (assets)				
Derivative financial instruments	693	(331)	(51)	311
Reverse repurchase agreements [3]	44	–	(44)	–
Total financial instruments (assets)	737	(331)	(95)	311
Financial instruments (liabilities)				
Derivative financial instruments	1,225	(331)	(260)	634
Total financial instruments (liabilities)	1,225	(331)	(260)	634

(1) Includes counterparty amounts recognized on the balance sheets where the Corporation and its subsidiaries have a potential offsetting position (as described above) but does not meet the criteria for offsetting on the balance sheets, excluding collateral.

(2) Financial collateral presented above excludes overcollateralization and, for exchange-traded derivatives, initial margin. Financial collateral received on reverse repurchase agreements is held by a third party. Total financial collateral, including initial margin and overcollateralization, received on derivative assets was $107 million ($52 million at December 31, 2014), received on reverse repurchase agreements was $44 million ($45 million at December 31, 2014), and pledged on derivative liabilities was $671 million ($299 million at December 31, 2014).

(3) Assets related to reverse repurchase agreements are included in bonds in the balance sheets.

NOTE 26 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair value of the Corporation's financial assets and financial liabilities, including their levels in the fair value hierarchy using the valuation methods and assumptions described in the summary of significant accounting policies and below. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment. The table distinguishes between those financial instruments recorded at fair value and those recorded at amortized cost.

The table excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value. Items excluded are: cash and cash equivalents, dividends, interest and accounts receivable, loans to policyholders, certain other financial assets, accounts payable, dividends and interest payable and certain other financial liabilities.

December 31, 2015	Carrying value	Level 1	Level 2	Level 3	Total fair value
Financial assets					
Financial assets recorded at fair value					
Bonds					
Fair value through profit or loss	86,460	–	86,450	10	86,460
Available for sale	12,014	–	12,013	1	12,014
Mortgage loans					
Fair value through profit or loss	384	–	384	–	384
Shares					
Fair value through profit or loss	6,692	6,615	10	67	6,692
Available for sale	63	62	–	1	63
Investment properties	5,237	–	–	5,237	5,237
Derivative instruments	520	4	516	–	520
Other assets	599	381	204	14	599
	111,969	7,062	99,577	5,330	111,969
Financial assets recorded at amortized cost					
Bonds					
Loans and receivables	16,905	–	18,145	108	18,253
Mortgage loans					
Loans and receivables	29,029	–	23,474	7,238	30,712
Shares					
Available for sale [(1)]	534	–	–	534	534
	46,468	–	41,619	7,880	49,499
Total financial assets	158,437	7,062	141,196	13,210	161,468
Financial liabilities					
Financial liabilities recorded at fair value					
Investment contract liabilities	2,180	–	2,153	27	2,180
Derivative instruments	2,682	3	2,632	47	2,682
Other liabilities	4	4	–	–	4
	4,866	7	4,785	74	4,866
Financial liabilities recorded at amortized cost					
Obligations to securitization entities	7,092	–	–	7,272	7,272
Debentures and other debt instruments	6,927	467	7,497	–	7,964
Capital trust debentures	161	–	215	–	215
Deposits and certificates	310	–	312	–	312
	14,490	467	8,024	7,272	15,763
Total financial liabilities	19,356	474	12,809	7,346	20,629

(1) Fair value of certain shares available for sale cannot be reliably measured, therefore these investments are recorded at cost.

NOTE 26 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

December 31, 2014	Carrying value	Level 1	Level 2	Level 3	Total fair value
Financial assets					
Financial assets recorded at fair value					
Bonds					
Fair value through profit or loss	79,957	–	79,871	86	79,957
Available for sale	10,501	–	10,500	1	10,501
Mortgage loans					
Fair value through profit or loss	366	–	366	–	366
Shares					
Fair value through profit or loss	6,697	6,671	7	19	6,697
Available for sale	60	59	–	1	60
Investment properties	4,613	–	–	4,613	4,613
Derivative instruments	693	1	692	–	693
Other assets	421	278	143	–	421
	103,308	7,009	91,579	4,720	103,308
Financial assets recorded at amortized cost					
Bonds					
Loans and receivables	13,178	–	14,533	126	14,659
Mortgage loans					
Loans and receivables	27,199	–	22,197	6,819	29,016
Shares					
Available for sale [(1)]	560	–	–	560	560
	40,937	–	36,730	7,505	44,235
Total financial assets	144,245	7,009	128,309	12,225	147,543
Financial liabilities					
Financial liabilities recorded at fair value					
Investment contract liabilities	857	–	829	28	857
Derivative instruments	1,225	4	1,195	26	1,225
Other liabilities	16	16	–	–	16
	2,098	20	2,024	54	2,098
Financial liabilities recorded at amortized cost					
Obligations to securitization entities	6,754	–	–	6,859	6,859
Debentures and other debt instruments	6,887	526	7,469	70	8,065
Capital trust debentures	162	–	220	–	220
Deposits and certificates	223	–	225	–	225
	14,026	526	7,914	6,929	15,369
Total financial liabilities	16,124	546	9,938	6,983	17,467

(1) Fair value of certain shares available for sale cannot be reliably measured, therefore these investments are recorded at cost.

There were no significant transfers between Level 1 and Level 2 in 2015 and 2014.

NOTE 26 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Corporation's financial assets and financial liabilities recorded at fair value and those for which fair value is disclosed have been categorized based upon the following fair value hierarchy:

- Level 1 inputs utilize observable, unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access. Financial assets and liabilities utilizing Level 1 inputs include actively exchange-traded equity securities, exchange-traded futures, and mutual and segregated funds which have available prices in an active market with no redemption restrictions. Level 1 assets also include open-end investment fund units in instances where there are quoted prices available from active markets.
- Level 2 inputs utilize other-than-quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other-than-quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data. Level 2 assets and liabilities include those priced using a matrix which is based on credit quality and average life, government and agency securities, restricted stock, some private bonds and equities, most investment-grade and high-yield corporate bonds, most asset-backed securities, most over-the-counter derivatives, mortgage loans, deposits and certificates, and most debentures and other debt instruments. The fair value of derivative financial instruments and deposits and certificates is determined using valuation models, discounted cash flow methodologies, or similar techniques using primarily observable market inputs. The fair value of debentures and other debt instruments is determined using indicative broker quotes. Investment contracts that are measured at fair value through profit or loss are mostly included in the Level 2 category.
- Level 3 inputs utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability. The values of the majority of Level 3 securities were obtained from single-broker quotes, internal pricing models, external appraisers or by discounting projected cash flows. Financial assets and liabilities utilizing Level 3 inputs include certain bonds, certain asset-backed securities, some private equities, some mortgage loans, investments in mutual and segregated funds where there are redemption restrictions, certain over-the-counter derivatives, investment properties, obligations to securitization entities, and certain other debt instruments.

NOTE 26 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table presents additional information about financial assets and financial liabilities measured at fair value on a recurring basis for which the Corporation and its subsidiaries have utilized Level 3 inputs to determine fair value for the year ended December 31, 2015.

	Bonds		Shares						
December 31, 2015	Fair value through profit or loss	Available for sale	Fair value through profit or loss	Available for sale	Investment properties	Derivatives, net	Other assets (liabilities)	Investment contract liabilities	Total
Balance, beginning of year	86	1	19	1	4,613	(26)	–	(28)	4,666
Total gains (losses)									
In net earnings	5	–	7	–	249	(34)	–	–	227
In other comprehensive income [(1)]	–	–	–	–	379	–	3	–	382
Purchases	–	–	50	–	278	–	5	–	333
Sales	–	–	(4)	–	(282)	–	–	–	(286)
Settlements	(47)	–	–	–	–	13	–	–	(34)
Other	–	–	–	–	–	–	–	1	1
Transfers into Level 3	–	–	–	–	–	–	6	–	6
Transfers out of Level 3	(34)	–	(5)	–	–	–	–	–	(39)
Balance, end of year	10	1	67	1	5,237	(47)	14	(27)	5,256

(1) Amount of other comprehensive income for investment properties represents the unrealized gains on foreign exchange.

Transfers into Level 3 are due primarily to other financial assets previously recorded at cost and were remeasured at fair value using recent market transactions.

Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors or the lifting of redemption restrictions on investments in mutual funds and segregated funds.

The following table sets out information about significant unobservable inputs used at period end in measuring financial assets and financial liabilities categorized as Level 3 in the fair value hierarchy.

Type of asset	**Valuation approach**	**Significant unobservable input**	**Input value**	**Inter-relationship between key unobservable inputs and fair value measurement**
Investment properties	Investment property valuations are generally determined using property valuation models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates.	Discount rate	Range of 3.2% – 10.0%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.
		Reversionary rate	Range of 4.8% – 8.3%	A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value.
		Vacancy rate	Weighted average of 3.9%	A decrease in the expected vacancy rate would generally result in an increase in fair value. An increase in the expected vacancy rate would generally result in a decrease in fair value.

NOTE 27 OTHER COMPREHENSIVE INCOME

	Items that may be reclassified subsequently to net earnings			Items that will not be reclassified to net earnings		
Year ended December 31, 2015	Investment revaluation and cash flow hedges	Foreign currency translation	Share of jointly controlled corporations and associates	Actuarial gain (losses) on defined benefit pension plans	Share of jointly controlled corporations and associates	Total
Balance, beginning of year	12	666	241	(479)	(50)	390
Other comprehensive income (loss)	(184)	1,370	37	105	3	1,331
Other	–	–	–	–	20	20
Balance, end of year	(172)	2,036	278	(374)	(27)	1,741

	Items that may be reclassified subsequently to net earnings			Items that will not be reclassified to net earnings		
Year ended December 31, 2014	Investment revaluation and cash flow hedges	Foreign currency translation	Share of jointly controlled corporations and associates	Actuarial gain (losses) on defined benefit pension plans	Share of jointly controlled corporations and associates	Total
Balance, beginning of year	(49)	263	327	(179)	(25)	337
Other comprehensive income (loss)	61	403	(86)	(300)	(25)	53
Balance, end of year	12	666	241	(479)	(50)	390

NOTE 28 EARNINGS PER SHARE

The following is a reconciliation of the numerators and the denominators used in the computations of earnings per share:

	Years ended December 31,	
	2015	2014
Earnings		
Net earnings attributable to shareholders	2,449	2,268
Dividends on perpetual preferred shares	(130)	(132)
Net earnings attributable to common shareholders	2,319	2,136
Dilutive effect of subsidiaries	(4)	(3)
Net earnings adjusted for dilutive effect	2,315	2,133
Number of common shares (millions)		
Weighted average number of common shares outstanding – Basic	713.0	711.3
Potential exercise of outstanding stock options	0.7	0.7
Weighted average number of common shares outstanding – Diluted	713.7	712.0
Net earnings per common share		
Basic	3.25	3.00
Diluted	3.24	3.00

For 2015, 3,457,961 stock options (2,713,742 in 2014) have been excluded from the computation of diluted earnings per share as they were anti-dilutive.

NOTE 29 RELATED PARTIES

PRINCIPAL SUBSIDIARIES, JOINT VENTURE AND ASSOCIATE

The financial statements of Power Financial include the operations of the following subsidiaries and joint venture:

			% equity interest	
Corporations	Incorporated in	Primary business operation	2015	2014
Great-West Lifeco Inc.	Canada	Financial services holding company	67.4	67.2
The Great-West Life Assurance Company	Canada	Insurance and wealth management	100	100
London Life Insurance Company	Canada	Insurance and wealth management	100	100
The Canada Life Assurance Company	Canada	Insurance and wealth management	100	100
Irish Life Group Limited	Ireland	Insurance and wealth management	100	100
Great-West Life & Annuity Insurance Company	United States	Insurance and wealth management	100	100
Putnam Investments, LLC (1)	United States	Financial services	95.7	95.2
IGM Financial Inc.	Canada	Financial services	60.4	58.8
Investors Group Inc.	Canada	Financial services	100	100
Mackenzie Financial Corporation	Canada	Financial services	100	100
Parjointco N.V. (joint venture)	Netherlands	Holding company	50	50
Pargesa Holding SA	Switzerland	Holding company	55.5	55.5
Wealthsimple Financial Corp. (2)	Canada	Financial services	33.2	–

(1) Lifeco holds 100% of the voting shares and 95.7% of the total outstanding shares.

(2) On February 4, 2016 the Corporation made an additional investment in Wealthsimple Financial Corp. and now holds a 60.4% equity interest.

TRANSACTIONS WITH RELATED PARTIES

In the normal course of business, Power Financial and its subsidiaries enter into various transactions; subsidiaries provide insurance benefits, sub-advisory services, distribution of insurance products and/or other administrative services to other subsidiaries of the group and to the Corporation. In all cases, these transactions are in the normal course of operations and have been recorded at fair value. Balances and transactions between the Corporation and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of other transactions between the Corporation and related parties are disclosed below.

In 2015, IGM sold residential mortgage loans to Great-West Life, London Life and segregated funds maintained by London Life for $206 million ($184 million in 2014).

Lifeco provides asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of Power Financial, and Lifeco and its subsidiaries.

On January 6, 2015, the Corporation increased its tax loss consolidation transactions with IGM. A wholly owned subsidiary of Power Financial issued $330 million of 4.51% preferred shares to Power Financial. Power Financial then sold these preferred shares to IGM for $330 million of IGM's 4.50% secured debentures. The Corporation has legally enforceable rights to settle these financial instruments on a net basis and the Corporation intends to exercise these rights.

NOTE 29 RELATED PARTIES (continued)

KEY MANAGEMENT COMPENSATION

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. The persons included in the key management personnel are the members of the Board of Directors of the Corporation, as well as certain management executives of the Corporation and its subsidiaries.

The following table describes all compensation paid to, awarded to, or earned by each of the key management personnel for services rendered in all capacities to the Corporation and its subsidiaries:

	Years ended December 31	
	2015	2014
Compensation and employee benefits	18	17
Post-employment benefits	6	9
Share-based payments	14	11
	38	37

NOTE 30 CONTINGENT LIABILITIES

The Corporation and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Corporation. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Corporation. Actual results could differ from the best estimates of the Corporation's and its subsidiaries' management.

LIFECO

A subsidiary of Lifeco, Canada Life, has declared four partial windups in respect of an Ontario defined benefit pension plan. The partial windups will involve the distribution of the amount of actuarial surplus attributable to the windups. A settlement of the class action proceeding commenced in Ontario relating to the partial windups received court approval in 2014. The settlement remains subject to regulatory approval. The provision has been adjusted to $21 million as at December 31, 2015.

A subsidiary of Lifeco, Putnam Advisory Company, LLC, is a defendant in an action in relation to its role as collateral manager of a collateralized debt obligation brought by an institution involved in the collateralized debt obligation. On April 28, 2014, the matter was dismissed. On July 2, 2014, the complainant filed an appeal of the dismissal and on April 15, 2015 the United States Court of Appeals for the Second Circuit issued its decision overturning the dismissal of the action and remanding the matter for further proceedings, which are ongoing. The resolution of this matter will not have a material adverse effect on the consolidated financial position of Lifeco.

Subsidiaries of Lifeco in the United States are defendants in proposed class actions relating to the administration of their staff retirement plans, or to the costs and features of certain of their retirement or fund products. These actions are at their early stages. Management of Lifeco believes the claims are without merit and will be aggressively defending these actions. Based on the information presently known these actions will not have a material adverse effect on the consolidated financial position of Lifeco.

NOTE 31 COMMITMENTS AND GUARANTEES

GUARANTEES

In the normal course of operations, the Corporation and its subsidiaries execute agreements that provide for indemnifications to third parties in transactions such as business dispositions, business acquisitions, loans and securitization transactions. The Corporation and its subsidiaries have also agreed to indemnify their directors and certain of their officers. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation and its subsidiaries could be required to pay third parties as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Corporation has not made any payments under such indemnification agreements. No amounts have been accrued related to these agreements.

LETTERS OF CREDIT

Letters of credit are written commitments provided by a bank. The total amount of letter of credit facilities at Lifeco is US$2.9 billion, of which US$2.7 billion were issued as of December 31, 2015.

The Reinsurance operation also periodically uses letters of credit as collateral under certain reinsurance contracts for on-balance sheet policy liabilities.

INVESTMENT COMMITMENTS

With respect to Lifeco, commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines and that are to be disbursed upon fulfilment of certain contract conditions were $203 million as at December 31, 2015. At December 31, 2015, the full amount of $203 million will mature within 1 year.

PLEDGING OF ASSETS FOR REINSURANCE AGREEMENTS

As at December 31, 2015, the amount of Lifeco's assets, which have a security interest by way of pledging, is $645 million ($598 million at December 31, 2014) with respect to certain reinsurance agreements.

COMMITMENTS

The Corporation and its subsidiaries enter into operating leases for office space and certain equipment used in the normal course of operations. Lease payments are charged to operations over the period of use. The future minimum lease payments in aggregate and by year are as follows:

	2016	2017	2018	2019	2020	2021 and thereafter	Total
Future lease payments [1]	144	126	108	69	53	116	616

[1] Subsequent to year-end, one of Lifeco's subsidiaries signed an office lease for 15 years commencing in 2018, for an additional commitment of $271 million over the period of the lease.

NOTE 32 SEGMENTED INFORMATION

The Corporation's reportable operating segments are Lifeco, IGM Financial and Pargesa. These reportable segments reflect Power Financial's management structure and internal financial reporting. The following provides a brief description of the three reportable operating segments:

- Lifeco is a financial services holding company with subsidiaries offering life insurance, health insurance, retirement and investment management services and engaged in the asset management and reinsurance businesses primarily in Canada, the United States and Europe.
- IGM Financial is a financial services company operating in Canada primarily within the advice segment of the financial services market. IGM earns revenues from a range of sources, but primarily from management fees, which are charged to its mutual funds for investment advisory and management services. IGM also earns revenues from fees charged to its mutual funds for administrative services.
- Pargesa is held through Parjointco. Pargesa is a holding company with diversified interests in Europe-based companies active in various sectors: minerals-based specialty solutions for industry; cement, aggregates and concrete; oil, gas and alternative energies; wines and spirits; testing, inspection and certification; and electricity, natural gas, and energy and environmental services.

The Corporate column is comprised of corporate activities of Power Financial and also includes consolidation elimination entries.

The Corporation evaluates the performance based on the operating segment's contribution to net earnings. Revenues and assets are attributed to geographic areas based on the point of origin of revenues and the location of assets. The contribution to net earnings of each segment includes the share of net earnings resulting from the investments that Lifeco and IGM have in each other.

NOTE 32 SEGMENTED INFORMATION (continued)

CONTRIBUTION TO NET EARNINGS

For the year ended December 31, 2015	Lifeco	IGM	Pargesa	Corporate	Total
Revenues					
Premium income, net	24,501	–	–	–	24,501
Investment income, net	4,240	195	–	(116)	4,319
Fee income	5,058	2,833	–	(199)	7,692
Total revenues	33,799	3,028	–	(315)	36,512
Expenses					
Total paid or credited to policyholders	22,842	–	–	–	22,842
Commissions	2,218	1,062	–	(147)	3,133
Operating and administrative expenses	4,986	883	–	14	5,883
Financing charges	303	92	–	18	413
Total expenses	30,349	2,037	–	(115)	32,271
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,450	991	–	(200)	4,241
Share of earnings (losses) of investments in jointly controlled corporations and associates	21	–	205	(2)	224
Earnings before income taxes	3,471	991	205	(202)	4,465
Income taxes	460	210	–	9	679
Contribution to net earnings	3,011	781	205	(211)	3,786
Attributable to					
Non-controlling interests	1,150	321	–	(134)	1,337
Perpetual preferred shareholders	–	–	–	130	130
Common shareholders	1,861	460	205	(207)	2,319
	3,011	781	205	(211)	3,786

TOTAL ASSETS AND LIABILITIES

December 31, 2015	Lifeco	IGM	Pargesa	Corporate	Total
Invested assets (including cash and cash equivalents)	160,903	8,426	–	871	170,200
Investments in jointly controlled corporations and associates	277	–	2,610	18	2,905
Other assets	30,211	894	–	33	31,138
Goodwill and intangible assets	10,409	4,784	–	–	15,193
Investments on account of segregated fund policyholders	198,194	–	–	–	198,194
Total assets [(1)]	399,994	14,104	2,610	922	417,630
Total liabilities	374,675	9,983	–	570	385,228

(1) Total assets of Lifeco and IGM operating segments include the allocation of goodwill and certain consolidation adjustments.

TOTAL ASSETS AND TOTAL REVENUES BY GEOGRAPHIC LOCATION

December 31, 2015	Canada	United States	Europe	Total
Invested assets (including cash and cash equivalents)	76,300	43,809	50,091	170,200
Investments in jointly controlled corporations and associates	18	–	2,887	2,905
Other assets	3,713	4,535	22,890	31,138
Goodwill and intangible assets	10,313	2,465	2,415	15,193
Investments on account of segregated fund policyholders	70,269	35,966	91,959	198,194
Total assets	160,613	86,775	170,242	417,630
Total revenues	17,631	7,380	11,501	36,512

NOTE 32 SEGMENTED INFORMATION (continued)

CONTRIBUTION TO NET EARNINGS

For the year ended December 31, 2014	Lifeco	IGM	Pargesa	Corporate	Total
Revenues					
Premium income, net	21,222	–	–	–	21,222
Investment income, net	13,513	165	–	(115)	13,563
Fee income	4,422	2,762	–	(194)	6,990
Total revenues	39,157	2,927	–	(309)	41,775
Expenses					
Total paid or credited to policyholders	29,160	–	–	–	29,160
Commissions	2,084	993	–	(176)	2,901
Operating and administrative expenses	4,244	877	–	41	5,162
Financing charges	304	92	–	17	413
Total expenses	35,792	1,962	–	(118)	37,636
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,365	965	–	(191)	4,139
Share of earnings (losses) of investments in jointly controlled corporations and associates	24	–	187	–	211
Earnings before income taxes	3,389	965	187	(191)	4,350
Income taxes	628	203	–	3	834
Contribution to net earnings	2,761	762	187	(194)	3,516
Attributable to					
Non-controlling interests	1,052	317	–	(121)	1,248
Perpetual preferred shareholders	–	–	–	132	132
Common shareholders	1,709	445	187	(205)	2,136
	2,761	762	187	(194)	3,516

TOTAL ASSETS AND LIABILITIES

December 31, 2014	Lifeco	IGM	Pargesa	Corporate	Total
Invested assets (including cash and cash equivalents)	145,720	8,325	–	786	154,831
Investments in jointly controlled corporations and associates	237	–	2,440	–	2,677
Other assets	25,907	770	–	46	26,723
Goodwill and intangible assets	9,940	4,706	–	–	14,646
Investments on account of segregated fund policyholders	174,966	–	–	–	174,966
Total assets [(1)]	356,770	13,801	2,440	832	373,843
Total liabilities	334,812	9,576	–	553	344,941

(1) Total assets of Lifeco and IGM operating segments include the allocation of goodwill and certain consolidation adjustments.

TOTAL ASSETS AND TOTAL REVENUES BY GEOGRAPHIC LOCATION

December 31, 2014	Canada	United States	Europe	Total
Invested assets (including cash and cash equivalents)	73,206	36,198	45,427	154,831
Investments in jointly controlled corporations and associates	–	–	2,677	2,677
Other assets	4,084	3,613	19,026	26,723
Goodwill and intangible assets	10,226	2,061	2,359	14,646
Investments on account of segregated fund policyholders	68,372	31,030	75,564	174,966
Total assets	155,888	72,902	145,053	373,843
Total revenues	20,043	7,551	14,181	41,775

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Power Financial Corporation

We have audited the accompanying consolidated financial statements of Power Financial Corporation, which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014, and the consolidated statements of earnings, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Power Financial Corporation as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Signed,
Deloitte LLP [1]

March 23, 2016

Montréal, Québec

[1] CPA auditor, CA, public accountancy permit No. A104630

POWER FINANCIAL CORPORATION

FIVE-YEAR FINANCIAL SUMMARY

December 31 [in millions of Canadian dollars, except per share amounts] (unaudited)	2015	2014	2013	2012	2011[1]
Consolidated Balance Sheets					
Cash and cash equivalents	4,188	3,989	4,344	3,313	3,385
Total assets	417,630	373,843	341,682	268,428	252,678
Shareholders' equity	19,550	17,019	15,993	13,451	13,521
Consolidated Statements of Earnings					
Revenues					
Premium income, net	24,501	21,222	20,236	19,257	17,293
Investment income, net	4,319	13,563	2,661	8,375	9,764
Fee income	7,692	6,990	5,933	5,302	5,343
Total revenues	36,512	41,775	28,830	32,934	32,400
Expenses					
Total paid or credited to policyholders	22,842	29,160	17,811	22,875	23,043
Commissions	3,133	2,901	2,590	2,487	2,312
Operating and administrative expenses	5,883	5,162	4,474	3,806	3,006
Financing charges	413	413	400	409	409
Total expenses	32,271	37,636	25,275	29,577	28,770
Earnings before investments in jointly controlled corporations and associates, and income taxes	4,241	4,139	3,555	3,357	3,630
Share of earnings (losses) of investments in jointly controlled corporations and associates	224	211	134	130	(20)
Earnings before income taxes – continuing operations	4,465	4,350	3,689	3,487	3,610
Income taxes	679	834	678	559	706
Net earnings – continuing operations	3,786	3,516	3,011	2,928	2,904
Net earnings – discontinued operations	–	–	–	–	63
Net earnings	3,786	3,516	3,011	2,928	2,967
Attributable to					
Non-controlling interests	1,337	1,248	984	1,193	1,141
Perpetual preferred shareholders	130	132	131	117	104
Common shareholders	2,319	2,136	1,896	1,618	1,722
	3,786	3,516	3,011	2,928	2,967
Per share					
Operating earnings attributable to common shareholders	3.14	2.96	2.40	2.37	2.44
Net earnings attributable to common shareholders from discontinued operations	–	–	–	–	0.05
Net earnings attributable to common shareholders	3.25	3.00	2.67	2.29	2.43
Dividends declared on common shares	1.49	1.40	1.40	1.40	1.40
Book value per common share	23.79	20.29	18.61	15.79	16.26
Market price (Common Shares)					
High	38.78	36.70	36.79	30.15	31.98
Low	30.28	30.14	27.02	24.06	23.62
Year-end	31.81	36.18	36.00	27.24	25.54

[1] The 2011 figures have not been adjusted to reflect current year reclassifications and new and revised IFRS adopted on January 1, 2013.

QUARTERLY FINANCIAL INFORMATION

[in millions of Canadian dollars, except per share amounts] (unaudited)	Total revenues	Net earnings	Net earnings attributable to common shareholders	Earnings per share attributable to common shareholders – basic	Earnings per share attributable to common shareholders – diluted
2015					
First quarter	13,369	956	573	0.80	0.80
Second quarter	4,901	963	616	0.87	0.86
Third quarter	9,281	975	602	0.84	0.84
Fourth quarter	8,961	892	528	0.74	0.74
2014					
First quarter	10,584	799	467	0.66	0.66
Second quarter	10,716	911	568	0.80	0.80
Third quarter	9,134	965	595	0.83	0.83
Fourth quarter	11,341	841	506	0.71	0.71

GREAT-WEST LIFECO INC.

PART B

MANAGEMENT'S DISCUSSION AND ANALYSIS

PAGE B 2

FINANCIAL STATEMENTS AND NOTES

PAGE B 73

Please note that the bottom of each page in Part B contains two different page numbers. A page number with the prefix "B" refers to the number of such page in this document and the page number without any prefix refers to the number of such page in the original document issued by Great-West Lifeco Inc.

The attached documents concerning Great-West Lifeco Inc. are documents prepared and publicly disclosed by such subsidiary. Certain statements in the attached documents, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the current expectations of the subsidiary as set forth therein. Forward-looking statements are provided for the purposes of assisting the reader in understanding the subsidiary's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about the subsidiary's management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

For further information provided by the subsidiary as to the material factors that could cause actual results to differ materially from the content of forward-looking statements, the material factors and assumptions that were applied in making the forward-looking statements, and the subsidiary's policy for updating the content of forward-looking statements, please see the attached documents, including the section entitled Cautionary Note Regarding Forward-Looking Information. The reader is cautioned to consider these factors and assumptions carefully and not to put undue reliance on forward-looking statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) presents management's view of the financial condition, results of operations and cash flows of Great-West Lifeco Inc. (Lifeco or the Company) for the three and twelve months ended December 31, 2015 and includes a comparison to the corresponding periods in 2014, to the three months ended September 30, 2015, and to the Company's financial condition as at December 31, 2014. This MD&A provides an overall discussion, followed by analysis of the performance of Lifeco's three major reportable segments: Canada, United States (U.S.) and Europe.

Businesses of Lifeco

Lifeco has operations in Canada, the United States, Europe and Asia through The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), Great-West Life & Annuity Insurance Company (Great-West Financial), Putnam Investments, LLC (Putnam) and Irish Life Group Limited (Irish Life).

In Canada, Great-West Life and its operating subsidiaries, London Life and Canada Life (owned through holding companies London Insurance Group Inc. (LIG) and Canada Life Financial Corporation (CLFC) respectively), offer a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, through a network of Freedom 55 Financial™ and Great-West Life financial security advisors, and through a multi-channel network of brokers, advisors, managing general agencies and financial institutions.

In the U.S., Great-West Financial is a leading provider of employer-sponsored retirement savings plans in the public/non-profit and corporate sectors. Under the Empower Retirement brand name, Great-West Financial® offers employer-sponsored defined contribution plans, individual retirement accounts, enrollment services, communication materials, investment options and education services as well as fund management, investment and advisory services. Its products and services are marketed nationwide through its sales force, brokers, consultants, advisors, third-party administrators and financial institutions. Putnam provides investment management, certain administrative functions and distribution services through a broad range of investment products, including the Putnam Funds, its own family of mutual funds, which are offered to individual and institutional investors.

The Europe segment comprises two distinct business units: Insurance & Annuities, which offers protection and wealth management products, including payout annuity products, through subsidiaries of Canada Life in the United Kingdom, Isle of Man and Germany as well as through Irish Life in Ireland; and Reinsurance, which operates primarily in the U.S., Barbados and Ireland. Reinsurance products are provided through Canada Life, London Life and their subsidiaries.

In Asia, Putnam has a 10% interest in Nissay Asset Management (NAM), a partnership with Nippon Life Insurance Company. Putnam predominantly acts as a sub-advisor for certain retail mutual funds distributed by NAM and also manages pension fund assets for NAM clients.

Lifeco currently has no other holdings and carries on no business or activities unrelated to its holdings in Great-West Life, London Life, Canada Life, Great-West Financial, Putnam and their subsidiaries. However, Lifeco is not restricted to investing in those companies and may make other investments in the future.

Basis of Presentation and Summary of Accounting Policies

The consolidated financial statements of Lifeco, which are the basis for data presented in this report, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted and are presented in millions of Canadian dollars unless otherwise indicated. This MD&A should be read in conjunction with the Company's consolidated financial statements for the period ended December 31, 2015.

Cautionary Note Regarding Forward-Looking Information

This MD&A may contain forward-looking statements. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" and other similar expressions or negative versions thereof. These statements may include, without limitation, statements about the Company's operations, business, financial condition, expected financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future actions by the Company, including statements made with respect to the expected benefits of acquisitions and divestitures. Forward-looking statements are based on expectations, forecasts, predictions, projections and conclusions about future events that were current at the time of the statements and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally, including the insurance and mutual fund industries. They are not guarantees of future performance, and the reader is cautioned that actual events and results could differ materially from those expressed or implied by forward-looking statements. Material factors and assumptions that were applied in formulating the forward-looking information contained herein include the assumption that the business and economic conditions affecting the Company's operations will continue substantially in their current state, including, without limitation, with respect to customer behaviour, the Company's reputation, market prices for products provided, sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy lapse rates, reinsurance, arrangements, liquidity requirements, capital requirements, credit ratings, taxes, inflation, interest and foreign exchange rates, investment values, hedging activities, global equity and capital markets, business competition and other general economic, political and market factors in North America and internationally. Many of these assumptions are based on factors and events that are not within the control of the Company and there is no assurance that they will prove to be correct. Other important factors and assumptions that could cause actual results to differ materially from those contained in forward-looking statements include customer responses to new products, impairments of goodwill and other intangible assets, the Company's ability to execute strategic plans and changes to strategic plans, technological changes, breaches or failure of information systems and security (including cyber attacks), payments required under investment products, changes in local and international laws and regulations, changes in accounting policies and the effect of applying future accounting policy changes, unexpected judicial or regulatory proceedings, catastrophic events, continuity and availability of personnel and third party service providers, the Company's ability to complete strategic transactions and integrate acquisitions and unplanned material changes to the Company's facilities, customer and employee relations or credit arrangements. The reader is cautioned that the foregoing list of assumptions and factors is not exhaustive, and there may be other factors listed in other filings with securities regulators, including factors set out in the Company's 2015 Annual MD&A under "Risk Management and Control Practices" and "Summary of Critical Accounting Estimates", which, along with other filings, is available for review at www.sedar.com. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not to place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company does not intend to update any forward-looking statements whether as a result of new information, future events or otherwise.

Cautionary Note Regarding Non-IFRS Financial Measures

This MD&A contains some non-IFRS financial measures. Terms by which non-IFRS financial measures are identified include, but are not limited to, "operating earnings", "constant currency basis", "premiums and deposits", "sales", "assets under management", "assets under administration" and other similar expressions. Non-IFRS financial measures are used to provide management and investors with additional measures of performance to help assess results where no comparable IFRS measure exists. However, non-IFRS financial measures do not have standard meanings prescribed by IFRS and are not directly comparable to similar measures used by other companies. Please refer to the appropriate reconciliations of these non-IFRS financial measures to measures prescribed by IFRS.

CONSOLIDATED OPERATING RESULTS

Selected consolidated financial information

(in Canadian $ millions, except for per share amounts)	As at or for the three months ended Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	For the twelve months ended Dec. 31 2015	Dec. 31 2014
Premiums and deposits:					
Amounts reported in the financial statements					
Net premium income (Life insurance, guaranteed annuities and insured health products)	**$ 6,162**	$ 5,891	$ 5,501	**$ 24,501**	$ 21,222
Policyholder deposits (segregated funds):					
Individual products	**3,814**	3,157	3,185	**12,983**	11,826
Group products	**2,001**	2,738	1,955	**8,609**	9,083
Premiums and deposits reported in the financial statements	**11,977**	11,786	10,641	**46,093**	42,131
Self-funded premium equivalents (Administrative services only contracts) (1)	**665**	639	654	**2,625**	2,603
Proprietary mutual funds and institutional deposits (1)	**15,480**	16,807	12,729	**56,257**	45,306
Total premiums and deposits (1)	**28,122**	29,232	24,024	**104,975**	90,040
Fee and other income	**1,333**	1,241	1,161	**5,058**	4,422
Paid or credited to policyholders (2)	**5,532**	5,833	8,125	**22,842**	29,160
Earnings					
Net earnings – common shareholders	**$ 683**	$ 720	$ 657	**$ 2,762**	$ 2,546
Per common share					
Basic earnings	**0.688**	0.724	0.658	**2.774**	2.549
Dividends paid	**0.326**	0.326	0.3075	**1.304**	1.230
Book value	**20.07**	19.40	16.80		
Return on common shareholders' equity (3)					
Net earnings	**14.7%**	15.2%	15.7%		
Total assets per financial statements	**$ 399,935**	$ 389,935	$ 356,709		
Proprietary mutual funds and institutional net assets (4)	**252,480**	239,050	216,271		
Total assets under management (4)	**652,415**	628,985	572,980		
Other assets under administration (5)	**560,102**	524,813	490,353		
Total assets under administration	**$1,212,517**	$ 1,153,798	$ 1,063,333		
Total equity	**$ 25,260**	$ 24,534	$ 21,897		

(1) In addition to premiums and deposits reported in the financial statements, the Company includes premium equivalents on self-funded group insurance administrative services only (ASO) contracts and deposits on proprietary mutual funds and institutional accounts to calculate total premiums and deposits (a non-IFRS financial measure). This measure provides useful information as it is an indicator of top line growth.

(2) Paid or credited to policyholders includes the impact of changes in fair values of assets supporting insurance and investment contract liabilities.

(3) Return on common shareholders' equity is detailed within the "Capital Allocation Methodology" section.

(4) Total assets under management (a non-IFRS financial measure) provides an indicator of the size and volume of the overall business of the Company. Services provided in respect of assets under management include the selection of investments, the provision of investment advice and discretionary portfolio management on behalf of clients. This includes internally and externally managed funds where the Company has oversight over the investment policies.

(5) Other assets under administration (a non-IFRS financial measure) includes assets where the Company only provides administration services for which the Company earns fee and other income. These assets are beneficially owned by clients and the Company does not direct the investing activities. Services provided relating to assets under administration includes recordkeeping, safekeeping, collecting investment income, settling of transactions or other administrative services. Administrative services are an important aspect of the overall business of the Company and should be considered when comparing volumes, size and trends.

Lifeco 2015 Highlights

Solid financial performance

- For the twelve months ended December 31, 2015, net earnings attributable to common shareholders grew to $2,762 million, an increase of 8.5% from the previous year, reflecting earnings growth in the Europe and U.S. segments.
- In 2015, Lifeco's quarterly common share dividend increased 6% to $0.3260 per share.
- The Company's financial leverage ratio has been maintained at less than 30% during 2015, consistent with credit rating agencies' targets for highly rated entities, and provides the Company with financial flexibility to invest in organic growth and acquisition strategies.
- The Company's strong capital position is evidenced by a Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio at December 31, 2015 of 238% for The Great-West Life Assurance Company, Lifeco's major Canadian operating subsidiary.
- Activities to ensure readiness for the new Solvency II regulations, effective January 1, 2016, have been a key focus of the Company's European regulated insurance and reinsurance businesses during 2015. The Company is well positioned for the new regulatory environment and will continue to work in cooperation with the European regulators throughout 2016.

Strategic growth supplemented by acquisition

- During 2015, the Company, through its wholly owned subsidiary Canada Life Group, completed two acquisitions in its Europe segment. In the first quarter of 2015, the Company acquired the assets and liabilities associated with The Equitable Life Assurance Society's (Equitable Life) annuity business in the U.K., subject to final court approval in 2016. In the third quarter of 2015, the Company completed the acquisition of Legal & General International (Ireland) Limited (LGII), a provider of investment and wealth management solutions for high-net-worth individuals in the U.K. These acquisitions will serve to strengthen the Company's position in the U.K. market.
- Also in the Europe segment, policy migration activities for the Irish Life integration successfully concluded during 2015. The Company now expects to realize €48 million of annualized synergies from the acquisition of Irish Life, exceeding the annualized synergy target of €40 million by 20%.
- In the U.S. segment, the combination of three established retirement businesses under the Empower Retirement brand resulted in strong growth in 2015 creating the second largest recordkeeping provider in the U.S. The number of participant accounts grew from 7.1 million at December 31, 2014 to over 7.5 million at December 31, 2015. Empower Retirement sales in 2015 were US$42.2 billion, over 220% higher than 2014.

  Beginning in 2015, the Company anticipates investing a total of approximately US$150 million over the next several years to improve the client-facing experience and streamline back-office processing. On a year-to-date basis, this investment in Empower Retirement strategic and business development reduced net earnings in 2015 by US$34 million. In 2016, this multi-year investment is expected to decrease net earnings by US$20 million.

  While investing in the Empower Retirement business, the Company has set an annual cost savings target of US$40 million to US$50 million pre-tax which is expected to be achieved through efficiencies from the conversion of businesses onto a single back-office platform, increased utilization of Great-West Global operations in India and scale-driven cost improvements. Integration activities are on track and are expected to be completed by the second quarter of 2017 with the annual reduction of operating costs fully reflected upon the completion of the business transformation in the next three to four years.
- In the Canada segment, the Company focused efforts on digital services, product development and service enhancements in 2015. A pilot program for an innovative health and wellness platform to help improve health outcomes for plan members and reduce associated health plan costs for plan sponsors was launched. The HelloLife™ retirement program was introduced allowing the Company's financial security advisors to help individuals create a retirement program tailored to their specific needs. As well, a new Freedom 55 Financial™ website and online advertising are repositioning the brand to help Canadians achieve financial success, with a focus on young people without a financial security advisor or financial security plan.

Outlook for 2016

- Lifeco is well positioned to invest in growth through acquisitions, new products and technology while maintaining a strong risk and expense discipline to deliver long-term value to its customers and shareholders.
- In Europe, growth opportunities through acquisition and product expansion will continue to be explored with a focus on expanding retirement and pension related products and developing new and innovative ways to help customers achieve financial security.
- In the U.S., investments continue to be made to streamline back office processes, integrate recordkeeping and retirement plan services businesses and position Empower Retirement for significant growth and consolidation opportunities.
- In Canada, the focus is on protecting and extending leadership positions through organic growth by investing in digital technology, product development and service enhancements in support of a multi-year strategy and positively impacting the financial, mental and physical wellbeing of Canadians.

Net Earnings

Consolidated net earnings of Lifeco include the net earnings of Great-West Life and its operating subsidiaries, London Life, Canada Life and Irish Life; Great-West Financial and Putnam, together with Lifeco's Corporate operating results.

Lifeco's net earnings attributable to common shareholders for the three month period ended December 31, 2015 were $683 million compared to $657 million a year ago and $720 million in the previous quarter. On a per share basis, this represents $0.688 per common share ($0.686 diluted) for the fourth quarter of 2015 compared to $0.658 per common share ($0.657 diluted) a year ago and $0.724 per common share ($0.722 diluted) in the previous quarter.

For the twelve months ended December 31, 2015, Lifeco's net earnings attributable to common shareholders were $2,762 million compared to $2,546 million a year ago, an increase of 8.5%. On a per share basis, this represents $2.774 per common share ($2.768 diluted) for 2015 compared to $2.549 per common share ($2.546 diluted) a year ago.

Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Canada					
Individual Insurance	**$ 51**	$ 91	$ 120	**$ 307**	$ 395
Wealth Management	**119**	116	69	**479**	383
Group Insurance	**74**	153	96	**432**	422
Canada Corporate	**18**	(34)	15	**(23)**	28
	262	326	300	**1,195**	1,228
United States					
Financial Services	**86**	106	93	**384**	382
Asset Management	**41**	(8)	(1)	**32**	(71)
U.S. Corporate	**(2)**	(2)	(3)	**(7)**	(5)
	125	96	89	**409**	306
Europe					
Insurance & Annuities	**234**	229	218	**886**	810
Reinsurance	**73**	71	71	**313**	265
Europe Corporate	**(4)**	(4)	(15)	**(25)**	(37)
	303	296	274	**1,174**	1,038
Lifeco Corporate	**(7)**	2	(6)	**(16)**	(26)
Net earnings – common shareholders	**$ 683**	$ 720	$ 657	**$ 2,762**	$ 2,546

The information in the table above is a summary of results for net earnings of the Company. Additional commentary regarding net earnings is included in the "Segmented Operating Results" section.

Market Impacts

Interest Rate Environment

Interest rates in countries where the Company operates mostly increased during 2015, except in Canada where rates decreased. The net change in interest rates did not impact the range of interest rate scenarios tested through the valuation process. The net change in interest rates during 2015 resulted in movements in the regulatory capital required, which reduced Great-West Life's MCCSR ratio by 3 percentage points and had no material impact on net earnings.

In order to mitigate the Company's exposure to interest rate fluctuations, the Company follows disciplined processes for managing the matching of the timing of asset and liability cash flows. As a result, the impact of changes in fair values of bonds backing insurance and investment contract liabilities recorded through profit or loss is mostly offset by a corresponding change in the insurance and investment contract liabilities.

The Company's sensitivity to interest rate fluctuations is detailed in the "Accounting Policies – Summary of Critical Accounting Estimates" section.

Equity Markets

In the geographies where the Company operates, average equity market levels in the fourth quarter of 2015 and year-to-date were mixed compared to the same periods in 2014; however, they ended the quarter at higher market levels compared to September 30, 2015, except in Canada. The change in average market levels and market volatility during the quarter had a positive impact on net earnings of approximately $9 million (negative impact of $12 million year-to-date), relative to the Company's expectation, related to asset-based fee income and the costs related to guarantees of death, maturity or income benefits within certain wealth management products offered by the Company. In addition, equity market levels at the end of the period positively impacted net earnings by approximately $6 million ($5 million year-to-date) related to seed money investments held in the Asset Management and Canada Corporate business units.

Comparing the fourth quarter of 2015 to the fourth quarter of 2014, average equity market levels were up by 2% in the U.S. (as measured by S&P 500) and by 7% in broader Europe (as measured by Eurostoxx 50); however, they were down by 8% in Canada (as measured by S&P TSX) and by 4% in the U.K. (as measured by FTSE 100). The major equity indices finished the fourth quarter up 6% in the U.S., 5% in broader Europe, 3% in the U.K. and down 2% in Canada compared to September 30, 2015.

Foreign Currency

Throughout this document, a number of terms are used to highlight the impact of foreign exchange on results, such as: "constant currency basis", "impact of currency movement" and "effect of currency translation fluctuations". These measures have been calculated using the average or period end rates, as appropriate, in effect at the date of the comparative period. This non-IFRS measure provides useful information as it facilitates the comparability of results between periods.

During the fourth quarter of 2015, the average currency translation rate of the U.S. dollar, the British pound and the euro increased compared to the fourth quarter of 2014. The overall impact of currency movement on the Company's net earnings for the three month period ended December 31, 2015 was an increase of $41 million ($108 million year-to-date) compared to translation rates a year ago.

From September 30, 2015 to December 31, 2015, the market rates at the end of the reporting period used to translate U.S. dollar and British pound assets and liabilities to the Canadian dollar increased, while the end-of-period market rate for euro assets

and liabilities was consistent with the previous quarter. The movements in end-of-period market rates resulted in unrealized foreign exchange gains from the translation of foreign operations, including related hedging activities, of $291 million in-quarter ($2,017 million net unrealized gains year-to-date) recorded in other comprehensive income.

Translation rates for the reporting period and comparative periods are detailed in the "Translation of Foreign Currency" section.

Credit Markets

Credit markets impact on common shareholders' net earnings (after-tax)

	For the three months ended December 31, 2015			For the twelve months ended December 31, 2015		
	Impairment (charges) / recoveries	Changes in future credit losses in insurance contract liabilities	Total	Impairment (charges) / recoveries	Changes in future credit losses in insurance contract liabilities	Total
Canada	$ –	$ (1)	$ (1)	$ –	$ 1	$ 1
United States	(2)	(2)	(4)	(2)	(4)	(6)
Europe	1	(22)	(21)	9	(52)	(43)
Total	**$ (1)**	**$ (25)**	**$ (26)**	**$ 7**	**$ (55)**	**$ (48)**

In the fourth quarter of 2015, the Company experienced net charges on impaired investments, including dispositions, which negatively impacted common shareholders' net earnings by $1 million ($1 million net recovery in the fourth quarter of 2014). Changes in credit ratings in the Company's bond portfolio resulted in a net increase in provisions for future credit losses in insurance contract liabilities, which negatively impacted common shareholders' net earnings by $25 million in the quarter ($20 million net charge in the fourth quarter of 2014).

For the twelve months ended December 31, 2015, the Company experienced net recoveries on impaired investments, including dispositions, which positively impacted common shareholders' net earnings by $7 million ($22 million net recovery in 2014). Changes in credit ratings in the Company's bond portfolio resulted in a net increase in provisions for future credit losses in insurance contract liabilities, which negatively impacted common shareholders' net earnings by $55 million year-to-date ($36 million net charge year-to-date in 2014).

Actuarial Assumption Changes

During the fourth quarter of 2015, the Company updated a number of assumptions resulting in a positive net earnings impact of $97 million, compared to $176 million for the same quarter last year and $123 million for the previous quarter. In Europe, net earnings were positively impacted by actuarial assumption changes of $68 million, primarily due to updated economic and annuitant mortality assumptions, partially offset by updated expense assumptions, modeling refinements and updated morbidity assumptions. In Canada, updated mortality and economic assumptions, partially offset by updated policyholder behaviour assumptions and modeling refinements were the primary drivers of the $30 million positive net earnings impact. Net earnings in the U.S. were negatively impacted by $1 million primarily due to modeling refinements. Included in the 2014 net earnings impact of $176 million was $60 million relating to the impact of revised Standards of Practice issued by the Canadian Actuarial Standards Board in 2014.

For the twelve months ended December 31, 2015, assumption changes resulted in a positive net earnings impact of $376 million as compared to $339 million for the same period in 2014.

Premiums and Deposits and Sales

Total premiums and deposits (a non-IFRS financial measure) include premiums on risk-based insurance and annuity products (as defined under IFRS), premium equivalents on self-funded group insurance administrative services only (ASO) contracts, deposits on individual and group segregated fund products as well as deposits on proprietary mutual funds and institutional accounts. This measure provides an indicator of top line growth.

Sales (a non-IFRS financial measure) for risk-based insurance and annuity products include 100% of single premium and annualized premiums expected in the first twelve months of the plan. Group insurance and ASO sales reflect annualized premiums and premium equivalents for new policies and new benefits covered or expansion of coverage on existing policies. For individual wealth management products, sales include deposits on segregated fund products, proprietary mutual funds and institutional accounts as well as deposits on non-proprietary mutual funds. For group wealth management products, sales include assets transferred from previous plan providers and the expected annual contributions from the new plan. This measure provides an indicator of new business growth.

Premiums and deposits

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Canada					
Individual Insurance	**$ 1,304**	$ 1,220	$ 1,202	**$ 4,894**	$ 4,518
Wealth Management	**2,804**	2,504	2,741	**10,832**	11,914
Group Insurance	**2,002**	1,948	1,931	**7,838**	7,708
	6,110	5,672	5,874	**23,564**	24,140
United States					
Financial Services	**5,087**	3,477	2,268	**13,798**	9,028
Asset Management	**10,869**	10,242	10,542	**39,850**	37,513
	15,956	13,719	12,810	**53,648**	46,541
Europe					
Insurance & Annuities	**4,497**	8,354	3,875	**22,127**	14,931
Reinsurance	**1,559**	1,487	1,465	**5,636**	4,428
	6,056	9,841	5,340	**27,763**	19,359
Total premiums and deposits	**$ 28,122**	$ 29,232	$ 24,024	**$ 104,975**	$ 90,040

Sales

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Canada	**$ 3,492**	$ 2,944	$ 3,311	**$ 12,635**	$ 12,164
United States	**31,630**	25,831	15,105	**95,715**	54,430
Europe – Insurance & Annuities	**3,917**	7,716	3,155	**19,485**	12,388
Total sales	**$ 39,039**	$ 36,491	$ 21,571	**$ 127,835**	$ 78,982

The information in the table above is a summary of results for the Company's total premiums and deposits and sales. Additional commentary regarding premiums and deposits and sales is included in the "Segmented Operating Results" section.

Net Investment Income

Net investment income

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Investment income earned (net of investment properties expenses)	**$ 1,623**	$ 1,555	$ 1,511	**$ 6,168**	$ 6,025
Allowances for credit losses on loans and receivables	**(1)**	–	(8)	**–**	(17)
Net realized gains	**78**	19	43	**213**	101
Regular investment income	**1,700**	1,574	1,546	**6,381**	6,109
Investment expenses	**(30)**	(28)	(30)	**(110)**	(99)
Regular net investment income	**1,670**	1,546	1,516	**6,271**	6,010
Changes in fair value through profit or loss	**(844)**	(82)	2,545	**(2,010)**	7,527
Net investment income	**$ 826**	$ 1,464	$ 4,061	**$ 4,261**	$ 13,537

Net investment income in the fourth quarter of 2015, which includes changes in fair value through profit or loss, decreased by $3,235 million compared to the same quarter last year. The change in fair values in the fourth quarter of 2015 was a decrease of $844 million compared to an increase of $2,545 million for the fourth quarter of 2014. Bond values decreased during the fourth quarter of 2015, primarily due to higher U.K. and U.S. bond yields. In the fourth quarter of 2014, bond values increased primarily due to declining U.K. and Canadian government bond yields.

Regular net investment income in the fourth quarter of 2015, which excludes changes in fair value through profit or loss, increased by $154 million compared to the fourth quarter of 2014. The increase was primarily due to the impact of currency movement as the U.S. dollar and British pound strengthened against the Canadian dollar as well as higher net realized gains. Net realized gains included gains on available-for-sale securities of $4 million for the fourth quarter of 2015 compared to $23 million for the same quarter last year.

For the twelve months ended December 31, 2015, net investment income decreased by $9,276 million compared to the same period last year. The change in fair values for the twelve month period in 2015 was a decrease of $2,010 million compared to an increase in fair values of $7,527 million during the same period in 2014. For the twelve months ended December 31, 2015, global bond yields were mixed as U.K. and U.S. bond yields increased in 2015 but declined in 2014, while Canadian bond yields have declined less in 2015 than the same period last year. As well, Canadian equity markets declined in 2015 but increased for the same period in 2014.

Regular net investment income for the twelve months ended December 31, 2015 increased by $261 million compared to the same period last year. The increase was primarily due to the impact of currency movement as the U.S. dollar and British pound strengthened against the Canadian dollar as well as higher net realized gains. Net realized gains included gains on available-for-sale securities of $106 million for the twelve months ended December 31, 2015, compared to $58 million for the same period last year.

Net investment income in the fourth quarter of 2015 decreased by $638 million compared to the previous quarter, primarily due to net decreases in fair values of $844 million in the fourth quarter of 2015 compared to $82 million in the previous quarter. The net change in fair values during the fourth quarter was primarily due to an increase in U.K. and U.S. government bond yields. During the previous quarter, the impact of a decline in Canadian equity markets was mostly offset by an increase in U.K. bond values due to the decline in U.K. government bond yields.

Fee and Other Income

In addition to providing traditional risk-based insurance products, the Company also provides certain products on a fee-for-service basis. The most significant of these products are segregated funds and mutual funds, for which the Company earns investment management fees on assets managed and other fees, as well as ASO contracts, under which the Company provides group benefit plan administration on a cost-plus basis.

Fee and other income

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Canada					
Segregated funds, mutual funds and other	**$ 328**	$ 328	$ 309	**$ 1,302**	$ 1,256
ASO contracts	**41**	38	40	**157**	153
	369	366	349	**1,459**	1,409
United States					
Segregated funds, mutual funds and other	**637**	591	522	**2,378**	1,820
Europe					
Segregated funds, mutual funds and other	**327**	284	290	**1,221**	1,193
Total fee and other income	**$ 1,333**	$ 1,241	$ 1,161	**$ 5,058**	$ 4,422

The information in the table above is a summary of gross fee and other income for the Company. Additional commentary regarding fee and other income is included in the "Segmented Operating Results" section.

Paid or Credited to Policyholders

Paid or credited to policyholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Canada	**$ 2,799**	$ 1,967	$ 3,327	**$ 9,991**	$ 12,676
United States	**1,084**	1,390	1,229	**4,138**	4,901
Europe	**1,649**	2,476	3,569	**8,713**	11,583
Total	**$ 5,532**	$ 5,833	$ 8,125	**$22,842**	$ 29,160

Amounts paid or credited to policyholders include life and health claims, policy surrenders, annuity and maturity payments, segregated fund guarantee payments, policyholder dividend and experience refund payments and changes in insurance and investment contract liabilities. The change in contract liabilities includes the impact of changes in fair value of certain invested assets supporting those liabilities as well as changes in the provision for future credit losses. The amounts do not include benefit payments for ASO contracts or segregated funds and mutual funds.

For the three months ended December 31, 2015, consolidated amounts paid or credited to policyholders were $5.5 billion, including $5.8 billion of policyholder benefit payments and a $0.3 billion decrease in contract liabilities. The decrease of $2.6 billion from the same period in 2014 consisted of a $3.2 billion decrease in the change in contract liabilities, partially offset by a $0.6 billion increase in benefit payments. The decrease in the change in contract liabilities was primarily due to fair value adjustments to insurance contract liabilities as a result of changes in interest rates in Canada, the U.S. and Europe. The increase in benefit payments was primarily due to the impact of currency movement and new and restructured reinsurance treaties.

For the twelve months ended December 31, 2015, consolidated amounts paid or credited to policyholders were $22.8 billion, including $22.0 billion of policyholder benefit payments and a $0.8 billion increase in contract liabilities. The decrease of $6.3 billion from the same period in 2014 consisted of a $9.4 billion decrease in the change in contract liabilities and a $3.1 billion increase in benefit payments. The decrease in the change in contract liabilities was primarily due to fair value adjustments to insurance contract liabilities as a result of changes in interest rates in Canada, the U.S. and Europe as well as the impact of a Dutch-based annuity reinsurance agreement entered into during the second quarter of 2014. The decrease was partially offset by the acquisition of Equitable Life's annuity business during the first quarter of 2015. The increase in benefit payments was primarily due to new and restructured reinsurance treaties and the impact of currency movement.

Compared to the previous quarter, consolidated amounts paid or credited to policyholders decreased by $0.3 billion. The decrease consisted of a $0.5 billion decrease in the change in contract liabilities, primarily due to fair value adjustments to insurance contract liabilities as a result of changes in interest rates in Canada, the U.S. and Europe. The decrease was partially offset by a $0.2 billion increase in benefit payments primarily due to higher business volumes and the impact of currency movement.

Other Benefits and Expenses

Other benefits and expenses

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Commissions	**$ 584**	$ 565	$ 514	**$ 2,218**	$ 2,084
Operating and administrative expenses	**1,175**	1,132	1,005	**4,466**	3,741
Premium taxes	**92**	83	86	**339**	339
Financing charges	**73**	78	77	**303**	304
Amortization of finite life intangible assets	**37**	36	34	**146**	132
Restructuring and acquisition expenses	**7**	7	7	**35**	32
Total	**$ 1,968**	$ 1,901	$ 1,723	**$ 7,507**	$ 6,632

Other benefits and expenses for the fourth quarter of 2015 of $1,968 million increased by $245 million compared to the fourth quarter of 2014, primarily due to the impact of currency movement, higher operating and administrative expenses, driven by increased strategic investments and higher commissions, driven by higher sales.

For the twelve months ended December 31, 2015, other benefits and expenses increased by $875 million compared to the same period last year, primarily due to the impact of currency movement, higher operating and administrative expenses, driven by the ongoing inclusion of RPS expenses, strategic investments in technology and Solvency II implementation, and higher commissions, driven by higher sales.

Other benefits and expenses for the fourth quarter of 2015 increased by $67 million compared to the previous quarter primarily due to increased operating and administrative expenses, driven by increased strategic investments, higher commissions, driven by higher sales, as well as the impact of currency movement.

Income Taxes

The Company's effective income tax rate is generally lower than the statutory income tax rate of 26.75% due to benefits related to non-taxable investment income and lower income tax in foreign jurisdictions.

In the fourth quarter of 2015, the Company had an effective income tax rate of 8%, down from 19% in the fourth quarter of 2014. The decrease in the effective income tax rate for the fourth quarter of 2015 was primarily due to a higher percentage of the Company's income consisting of non-taxable investment income and income subject to lower rates of income tax in foreign jurisdictions as well as changes in certain tax estimates, which included the positive impact of an adjustment of US$27 million in the Asset Management business unit of the U.S. segment.

The Company had an effective income tax rate of 13% for the twelve months ended December 31, 2015 compared to 19% for the same period last year. The decrease in the Company's effective income tax rate was primarily due to the same reasons discussed for the in-quarter results, as well as higher adjustments of prior year tax provisions to tax filings in 2015 as compared to 2014.

The fourth quarter effective income tax rate of 8% was lower than the third quarter rate of 10%. The decrease in the effective income tax rate was primarily due to a higher benefit from changes in certain tax estimates. The fourth quarter of 2015 included the adjustment in the U.S. segment as discussed for the in-quarter results, while the third quarter of 2015 included the adjustment of prior year tax provisions to tax filings.

CONSOLIDATED FINANCIAL POSITION

ASSETS

Assets under administration

	December 31, 2015			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 67,701	$ 43,809	$ 50,071	$ 161,581
Goodwill and intangible assets	5,132	2,465	2,352	9,949
Other assets	2,793	4,535	22,883	30,211
Segregated funds net assets	70,269	35,966	91,959	198,194
Total assets	145,895	86,775	167,265	399,935
Proprietary mutual funds and institutional net assets	5,039	218,231	29,210	252,480
Total assets under management	150,934	305,006	196,475	652,415
Other assets under administration	15,390	503,125	41,587	560,102
Total assets under administration	$ 166,324	$ 808,131	$ 238,062	$ 1,212,517

	December 31, 2014			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 64,718	$ 36,198	$ 45,440	$ 146,356
Goodwill and intangible assets	5,123	2,061	2,296	9,480
Other assets	3,277	3,613	19,017	25,907
Segregated funds net assets	68,372	31,030	75,564	174,966
Total assets	141,490	72,902	142,317	356,709
Proprietary mutual funds and institutional net assets	4,718	190,817	20,736	216,271
Total assets under management	146,208	263,719	163,053	572,980
Other assets under administration	14,793	433,754	41,806	490,353
Total assets under administration	$ 161,001	$ 697,473	$ 204,859	$ 1,063,333

Total assets under administration at December 31, 2015 increased by $149.2 billion to $1.2 trillion compared to December 31, 2014, primarily due to the positive impact of currency movement.

INVESTED ASSETS

The Company manages its general fund assets to support the cash flow, liquidity and profitability requirements of the Company's insurance and investment products. The Company follows prudent and conservative investment policies, so that assets are not unduly exposed to concentration, credit or market risks. The Company implements strategies within the overall framework of the Company's policies, reviewing and adjusting them on an ongoing basis in light of liability cash flows and capital market conditions. The majority of investments of the general fund are in medium-term and long-term fixed-income investments, primarily bonds and mortgages, reflecting the characteristics of the Company's liabilities.

Invested asset distribution

	December 31, 2015				
	Canada	**United States**	**Europe**	**Total**	
Bonds					
Government & related	**$ 20,192**	**$ 9,254**	**$ 17,617**	**$ 47,063**	**29%**
Corporate & other	**22,928**	**22,797**	**22,155**	**67,880**	**42**
Sub-total bonds	**43,120**	**32,051**	**39,772**	**114,943**	**71**
Mortgages	**12,691**	**4,932**	**4,398**	**22,021**	**14**
Stocks	**6,971**	**168**	**734**	**7,873**	**5**
Investment properties	**1,788**	**5**	**3,444**	**5,237**	**3**
Sub-total portfolio investments	**64,570**	**37,156**	**48,348**	**150,074**	**93**
Cash and cash equivalents	**578**	**627**	**1,608**	**2,813**	**2**
Loans to policyholders	**2,553**	**6,026**	**115**	**8,694**	**5**
Total invested assets	**$ 67,701**	**$ 43,809**	**$ 50,071**	**$ 161,581**	**100%**

	December 31, 2014				
	Canada	United States	Europe	Total	
Bonds					
Government & related	$ 19,541	$ 7,624	$ 16,867	$ 44,032	30%
Corporate & other	21,102	18,558	19,476	59,136	41
Sub-total bonds	40,643	26,182	36,343	103,168	71
Mortgages	12,593	4,212	3,741	20,546	14
Stocks	7,018	149	653	7,820	5
Investment properties	1,556	4	3,053	4,613	3
Sub-total portfolio investments	61,810	30,547	43,790	136,147	93
Cash and cash equivalents	413	528	1,557	2,498	2
Loans to policyholders	2,495	5,123	93	7,711	5
Total invested assets	$ 64,718	$ 36,198	$ 45,440	$ 146,356	100%

At December 31, 2015, total invested assets were $161.6 billion, an increase of $15.2 billion from December 31, 2014. The increase was primarily due to the impact of currency movement as the U.S. dollar and British pound strengthened against the Canadian dollar. The distribution of assets has not changed significantly and remains heavily weighted to bonds and mortgages.

Bond portfolio – It is the Company's policy to acquire only investment grade bonds subject to prudent and well-defined investment policies. The total bond portfolio, including short-term investments, was $114.9 billion or 71% of invested assets at December 31, 2015 and $103.2 billion or 71% at December 31, 2014. The overall quality of the bond portfolio remained high, with 99% of the portfolio rated investment grade and 81% rated A or higher.

Bond portfolio quality

	December 31, 2015		December 31, 2014	
AAA	**$ 36,434**	**32%**	$ 34,332	34%
AA	**20,364**	**18**	18,954	18
A	**35,623**	**31**	31,133	30
BBB	**20,984**	**18**	17,370	17
BB or lower	**1,538**	**1**	1,379	1
Total	**$ 114,943**	**100%**	$ 103,168	100%

At December 31, 2015, non-investment grade bonds were $1.5 billion or 1.3% of the bond portfolio, which was comparable to $1.4 billion or 1.3% of the bond portfolio at December 31, 2014.

Mortgage portfolio – It is the Company's practice to acquire only high quality commercial mortgages meeting strict underwriting standards and diversification criteria. The Company has a well-defined risk-rating system, which it uses in its underwriting and credit monitoring processes for commercial loans. Residential loans are originated by the Company's mortgage specialists in accordance with well-established underwriting standards and are well diversified across each geographic region, including specific diversification requirements for non-insured mortgages.

Mortgage portfolio

	December 31, 2015				December 31, 2014	
Mortgage loans by type	Insured	Non-insured	Total		Total	
Single family residential	$ 755	$ 1,207	$ 1,962	9%	$ 1,916	9%
Multi-family residential	2,949	2,872	5,821	26	5,322	26
Commercial	210	14,028	14,238	65	13,308	65
Total	$ 3,914	$ 18,107	$ 22,021	100%	$ 20,546	100%

The total mortgage portfolio was $22.0 billion or 14% of invested assets at December 31, 2015, compared to $20.5 billion or 14% of invested assets at December 31, 2014. Total insured loans were $3.9 billion or 18% of the mortgage portfolio.

Single family residential mortgages

	December 31, 2015		December 31, 2014	
Region				
Ontario	$ 946	49%	$ 933	49%
Quebec	405	21	401	21
Alberta	136	7	134	7
British Columbia	123	6	111	6
Newfoundland	105	5	102	5
Saskatchewan	84	4	78	4
Nova Scotia	62	3	62	3
Manitoba	55	3	51	3
New Brunswick	42	2	41	2
Other	4	–	3	–
Total	$ 1,962	100%	$ 1,916	100%

During the twelve months ended December 31, 2015, single family mortgage originations, including renewals, were $628 million, of which 33% were insured. Insured mortgages include mortgages where insurance is provided by a third party and protects the Company in the event that the borrower is unable to fulfill their mortgage obligations. Loans that are insured are subject to the requirements of the mortgage default insurance provider. For new originations of non-insured residential mortgages, the Company's investment policies limit the amortization period to a maximum 25 years and the loan-to-value to a maximum of 80% of the purchase price or current appraised value of the property. The weighted average remaining amortization period for the single family residential mortgage portfolio is 22 years as at December 31, 2015.

Commercial mortgages

	December 31, 2015				December 31, 2014			
	Canada	U.S.	Europe	Total	Canada	U.S.	Europe	Total
Retail & shopping centres	$ 3,367	$ 731	$ 1,692	$ 5,790	$ 3,410	$ 503	$ 1,581	$ 5,494
Office buildings	1,703	621	946	3,270	1,574	637	693	2,904
Industrial	1,595	1,375	977	3,947	1,578	1,365	734	3,677
Other	390	435	406	1,231	455	383	395	1,233
Total	$ 7,055	$ 3,162	$ 4,021	$ 14,238	$ 7,017	$ 2,888	$ 3,403	$ 13,308

Equity portfolio

	December 31, 2015		December 31, 2014	
Equity portfolio by type				
Publicly traded stocks	$ 7,054	54%	$ 7,012	57%
Privately held equities (at cost)	819	6	808	6
Sub-total	7,873	60	7,820	63
Investment properties	5,237	40	4,613	37
Total	$ 13,110	100%	$ 12,433	100%

Investment properties

	December 31, 2015				December 31, 2014			
	Canada	U.S.	Europe	Total	Canada	U.S.	Europe	Total
Office buildings	$ 955	$ –	$ 730	$ 1,685	$ 749	$ –	$ 774	$ 1,523
Industrial	288	–	762	1,050	290	–	638	928
Retail	204	–	1,417	1,621	204	–	1,191	1,395
Other	341	5	535	881	313	4	450	767
Total	$ 1,788	$ 5	$ 3,444	$ 5,237	$ 1,556	$ 4	$ 3,053	$ 4,613

Equity portfolio – The total equity portfolio was $13.1 billion or 8% of invested assets at December 31, 2015 compared to $12.4 billion or 8% of invested assets at December 31, 2014. The equity portfolio consists of publicly traded stocks, privately held equities and investment properties. The increase in investment properties of $0.6 billion was mainly a result of net market value increases and the strengthening of the British pound against the Canadian dollar.

Impaired investments – Impaired investments include bonds in default, mortgages in default or in the process of foreclosure, investment properties acquired by foreclosure and other assets where management no longer has reasonable assurance that all contractual cash flows will be received.

Impaired investments

	December 31, 2015				December 31, 2014			
	Gross amount	Impairment recovery	Impairment provision	Carrying amount	Gross amount	Impairment recovery	Impairment provision	Carrying amount
Fair value through profit or loss	$ 287	$ 69	$ (1)	$ 355	$ 292	$ 66	$ (3)	$ 355
Available-for-sale	12	2	(3)	11	15	–	(1)	14
Loans and receivables	50	–	(20)	30	33	–	(18)	15
Total	$ 349	$ 71	$ (24)	$ 396	$ 340	$ 66	$ (22)	$ 384

The gross amount of impaired investments totaled $349 million or 0.2% of portfolio investments (including certain assets reported as funds held by ceding insurers) at December 31, 2015 compared with $340 million or 0.2% at December 31, 2014, a net increase of $9 million. Impaired investments increased primarily due to the strengthening of the British pound and U.S. dollar against the Canadian dollar, which was mostly offset by repayments.

The impairment recovery at December 31, 2015 was $71 million, which reflects the improvement in market values of certain impaired investments from the date at which they became impaired. The impairment provision at December 31, 2015 of $24 million was comparable to $22 million at December 31, 2014. While the fair values have improved on certain impaired assets, these assets remain impaired based on other impairment factors as described in the "Summary of Critical Accounting Estimates" section of this document and in note 2 to the Company's December 31, 2015 annual consolidated financial statements.

Provision for future credit losses

As a component of insurance contract liabilities, the total actuarial provision for future credit losses is determined consistent with the Canadian Institute of Actuaries' Standards of Practice and includes provisions for adverse deviation.

At December 31, 2015, the total actuarial provision for future credit losses in insurance contract liabilities was $3,558 million compared to $3,133 million at December 31, 2014, an increase of $425 million primarily due to the impact of currency movement, normal business activity and credit rating activity, partially offset by the impact of basis changes.

The aggregate of impairment provisions of $24 million ($22 million at December 31, 2014) and actuarial provisions for future credit losses in insurance contract liabilities of $3,558 million ($3,133 million at December 31, 2014) represents 2.4% of bond and mortgage assets, including funds held by ceding insurers, at December 31, 2015 (2.4% at December 31, 2014).

Energy Sector

Holdings of Energy Sector[(1)] related Bonds, Mortgages and Investment Properties

	December 31, 2015				
	Canada	U.S.	Europe	Total	Amortized Cost [(2)]
Bonds [(3)]	$ 1,565	$ 2,046	$ 1,605	$ 5,216	$ 5,177
Mortgages	2,204	300	56	2,560	2,560
Investment properties	300	–	–	300	
Total	$ 4,069	$ 2,346	$ 1,661	$ 8,076	

(1) Energy sector bond holdings are a sub-category of certain industry sectors presented in note 7(a)(ii) in the Company's December 31, 2015 annual consolidated financial statements.

(2) Amortized cost is not applicable for Investment properties.

(3) Includes certain funds held by ceding insurers with a carrying value of $570 million and an amortized cost of $544 million.

At December 31, 2015, the Company's holdings of energy sector related investments, including funds held by ceding insurers, were $8.1 billion. This included direct exposure of bond holdings of $5.2 billion, or 3.0% of invested assets, including funds held by ceding insurers, and indirect exposure of commercial mortgages and investment properties of $2.9 billion, or 1.6% of invested assets, including funds held by ceding insurers.

At December 31, 2015, the Company's energy sector related bond holdings of $5.2 billion were well diversified across multiple sub-sectors and were high quality with approximately 97% rated investment grade. Approximately half of the portfolio was invested in Midstream and Refining entities and half in Integrated, Independent and Oil Field Services entities.

In January 2016, Moody's Investors Service (Moody's) and Standard & Poor's Ratings Services revised their forecasts downward for crude oil and natural gas prices. Hydrocarbon price assumptions are a key input into cash flow forecasts and the resulting issuer and sector credit risk profile, particularly for the Integrated, Independent and Oil Field Services sub-sectors. Moody's has changed its outlook to Negative for these three sub-sectors while maintaining a Stable Outlook for the Midstream and Master Limited Partnerships as well as the Refining and Marketing sub-sectors. Underpinning the change in outlook is a forecast for West Texas Intermediate, the U.S. benchmark for crude oil per barrel, of US$33 in 2016, US$38 in 2017 and US$43 in 2018. While the outlook for certain sub-sectors has been lowered, the risk profile for individual issuers within a sub-segment will vary depending upon the credit worthiness of the particular issuer. To date, the impact of the decrease in crude oil prices on the Company's bond holdings has been limited to spread widening and some small increases in asset default provisions as a result of rating downgrades.

In addition to direct exposure related to the bond holdings, the Company also holds commercial mortgages and investment properties that are concentrated in certain geographic regions where the economy is more dependent upon the energy sector. These holdings totaled $2.9 billion at December 31, 2015, and are well diversified across property type – Industrial/Other (29%), Multi-family (28%), Office (23%) and Retail (20%). Approximately 82% of the portfolio is concentrated in the province of Alberta, with the remainder primarily in the state of Texas. The weighted average loan-to-value ratio of the commercial mortgages was less than 55% at December 31, 2015.

Derivative Financial Instruments

There were no major changes to the Company's policies and procedures with respect to the use of derivative financial instruments in 2015. The Company's derivative transactions are generally governed by International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements, which provide for legally enforceable set-off and close-out netting of exposure to specific counterparties in the event of early termination of a transaction, which includes, but is not limited to, events of default and bankruptcy. In the event of an early termination, the Company is permitted to set off receivables from a counterparty against payables to the same counterparty, in the same legal entity, arising out of all included transactions. The Company's ISDA Master Agreements may include Credit Support Annex provisions, which require both the pledging and accepting of collateral in connection with its derivative transactions.

At December 31, 2015, total financial collateral, including initial margin and overcollateralization, received on derivative assets was $107 million ($52 million at December 31, 2014) and pledged on derivative liabilities was $671 million ($299 million at December 31, 2014). Collateral pledged on derivative liabilities increased in 2015, in response to an increase in derivative liabilities, primarily driven by the impact of the strengthening of the U.S. dollar against the Canadian dollar on cross currency swap fair values.

During the twelve month period ended December 31, 2015, the outstanding notional amount of derivative contracts increased by $1.2 billion to $16.7 billion, primarily as a result of regular hedging activities.

The Company's exposure to derivative counterparty credit risk, which reflects the current fair value of those instruments in a gain position, decreased to $461 million at December 31, 2015 from $652 million at December 31, 2014. The decrease was primarily due to interest rate swaps that were in an unrealized gain position of $202 million at December 31, 2014 that were unwound in the first quarter of 2015.

Goodwill and Intangible Assets

Goodwill and intangible assets

	December 31	
	2015	2014
Goodwill	**$ 5,913**	$ 5,855
Indefinite life intangible assets	**3,115**	2,788
Finite life intangible assets	**921**	837
Total	**$ 9,949**	$ 9,480

The Company's goodwill and intangible assets relate primarily to its acquisitions of London Life, Canada Life, Putnam and Irish Life. Goodwill and intangible assets increased by $469 million to $9,949 million at December 31, 2015 compared to December 31, 2014. Goodwill increased $58 million to $5,913 million driven by currency movements. Indefinite and finite life intangible assets increased by $411 million during 2015. The increase was driven by currency movements and net additions to computer software finite life intangible assets.

IFRS principles require the Company to assess at the end of each reporting period whether there is any indication that an asset may be impaired and to perform an impairment test on goodwill and intangibles at least annually or more frequently if events indicate that impairment may have occurred. Intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal. In the fourth quarter of 2015, the Company conducted its annual impairment testing of goodwill and intangible assets. There were no impairments to goodwill and indefinite life intangible assets identified during the testing. In the fourth quarter of 2015, the Company recognized an impairment of $2 million ($2 million after-tax) to finite life intangible assets related to computer software.

Refer to note 11 in the Company's December 31, 2015 annual consolidated financial statements for further details of the Company's goodwill and intangible assets. Also, refer to the "Summary of Critical Accounting Estimates" section of this document for details on impairment testing of these assets.

Other General Fund Assets

Other general fund assets

	December 31	
	2015	2014
Funds held by ceding insurers	**$15,512**	$ 12,154
Reinsurance assets	**5,131**	5,151
Premiums in course of collection, accounts and interest receivable	**3,553**	3,056
Other assets	**2,643**	2,368
Deferred tax assets	**1,891**	1,631
Owner occupied properties	**653**	619
Derivative financial instruments	**461**	652
Fixed assets	**298**	228
Current income taxes	**69**	48
Total	**$30,211**	$ 25,907

Total other general fund assets at December 31, 2015 were $30.2 billion, an increase of $4.3 billion from December 31, 2014. The increase was primarily due to a $3.4 billion increase in funds held by ceding insurers and a $0.3 billion increase in deferred tax assets. The increase in funds held by ceding reinsurers was primarily due to two large reinsurance agreements entered into during 2015, which included Equitable Life's annuity business.

Other assets comprise several items including prepaid expenses and accounts receivable. Refer to note 13 in the Company's December 31, 2015 annual consolidated financial statements for a breakdown of other assets.

Investments on Account of Segregated Fund Policyholders

Segregated funds

	December 31		
	2015	2014	2013
Stock and units in unit trusts	**$ 80,829**	$ 68,911	$ 62,882
Mutual funds	**50,101**	46,707	41,555
Bonds	**42,160**	37,912	34,405
Investment properties	**10,839**	9,533	8,284
Cash and other	**10,279**	8,383	10,454
Mortgage loans	**2,596**	2,508	2,427
Sub-total	**$196,804**	$173,954	$160,007
Non-controlling mutual funds interest	**1,390**	1,012	772
Total	**$198,194**	$174,966	$160,779
Year-over-year growth	**13%**	9%	

Investments on account of segregated fund policyholders which are measured at fair value, increased by $23.2 billion to $198.2 billion at December 31, 2015, primarily due the impact of currency movement of $12.9 billion, the $5.5 billion impact of the LGII acquisition, the combined impact of market value gains and investment income of $4.7 billion, partially offset by net withdrawals of $0.3 billion.

Proprietary Mutual Funds

Proprietary mutual funds and institutional net assets

	December 31	
	2015	2014
Mutual funds		
Blend equity	**$ 40,070**	$ 37,343
Growth equity	**14,468**	13,587
Equity value	**22,798**	21,130
Fixed-income	**34,384**	32,975
Money market	**123**	118
Great-West Financial Funds (1)	**13,480**	8,033
Sub-total	**125,323**	113,186
Institutional accounts		
Equity	**77,236**	65,157
Fixed-income	**44,458**	37,674
Other	**5,463**	254
Sub-total	**127,157**	103,085
Total proprietary mutual funds and institutional accounts	**$252,480**	$216,271

(1) Excludes $9.1 billion of Putnam managed funds ($1.0 billion at December 31, 2014), which are included in the categories above.

At December 31, 2015, total proprietary mutual funds and institutional accounts includes $218.2 billion at Putnam and Great-West Financial, $4.9 billion at Quadrus, and $28.6 billion at Irish Life. Proprietary mutual funds and institutional accounts under management increased by $36.2 billion, primarily as a result of the positive impact of currency and market movements of $30.0 billion and net inflows of $6.2 billion.

LIABILITIES

Total liabilities

	December 31	
	2015	2014
Insurance and investment contract liabilities	**$160,672**	$ 146,055
Other general fund liabilities	**15,809**	13,791
Investment and insurance contracts on account of segregated fund policyholders	**198,194**	174,966
Total	**$374,675**	$334,812

Total liabilities increased by $39.9 billion to $374.7 billion at December 31, 2015 from December 31, 2014.

Investment and insurance contracts on account of segregated fund policyholders increased by $23.2 billion, primarily due the impact of currency movement of $12.9 billion, the $5.5 billion impact of the LGII acquisition, the combined impact of market value gains and investment income of $4.7 billion, partially offset by net withdrawals of $0.3 billion. Insurance and investment contract liabilities increased by $14.6 billion. The increase was primarily due to the strengthening of the U.S. dollar, euro and British pound against the Canadian dollar. The acquisition of Equitable Life's annuity business and a block of investment contract liabilities in the form of structured settlements with fixed terms and amounts also contributed to the increase.

Insurance and investment contract liabilities represent the amounts that, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends and expenses on policies in-force. Insurance and investment contract liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. Also, refer to the "Summary of Critical Accounting Estimates" section of this document for further details.

Assets supporting insurance and investment contract liabilities

	Participating Account	Non-Participating			Total
		Canada	United States	Europe	
December 31, 2015					
Bonds	**$ 22,306**	**$ 18,848**	**$ 23,023**	**$ 32,985**	**$ 97,162**
Mortgage loans	**8,341**	**3,839**	**3,813**	**4,358**	**20,351**
Stocks	**4,266**	**1,732**	**–**	**226**	**6,224**
Investment properties	**1,412**	**7**	**–**	**3,342**	**4,761**
Other assets [(1)]	**9,544**	**3,736**	**789**	**18,105**	**32,174**
Total assets	**$ 45,869**	**$ 28,162**	**$ 27,625**	**$ 59,016**	**$ 160,672**
Total insurance and investment contract liabilities	**$ 45,869**	**$ 28,162**	**$ 27,625**	**$ 59,016**	**$ 160,672**
December 31, 2014					
Bonds	$ 19,904	$ 18,991	$ 18,678	$ 30,723	$ 88,296
Mortgage loans	8,126	3,941	3,330	3,702	19,099
Stocks	4,414	1,740	–	191	6,345
Investment properties	1,230	5	–	2,738	3,973
Other assets [(1)]	9,246	3,417	603	15,076	28,342
Total assets	$ 42,920	$ 28,094	$ 22,611	$ 52,430	$ 146,055
Total insurance and investment contract liabilities	$ 42,920	$ 28,094	$ 22,611	$ 52,430	$ 146,055

(1) Other assets include premiums in the course of collection, interest due and accrued, other investment receivables, current income taxes, prepaid expenses, accounts receivable and deferred acquisition costs.

Asset and liability cash flows are matched within reasonable limits to minimize the financial effects of a shift in interest rates and mitigate the changes in the Company's financial position due to interest rate volatility.

Other General Fund Liabilities

Other general fund liabilities

	December 31	
	2015	2014
Debentures and other debt instruments	**$ 5,395**	$ 5,355
Other liabilities	**3,367**	3,099
Derivative financial instruments	**2,624**	1,195
Accounts payable	**1,755**	1,480
Deferred tax liabilities	**1,659**	1,450
Current income taxes	**492**	737
Funds held under reinsurance contracts	**356**	313
Capital trust securities	**161**	162
Total	**$15,809**	$ 13,791

Total other general fund liabilities increased by $2.0 billion to $15.8 billion, primarily due to an increase in derivative financial instruments of $1.4 billion as well as an increase in accounts payable and other liabilities of $0.5 billion.

Other liabilities of $3.4 billion include pension and other post-employment benefits, deferred income reserve, bank overdraft and other liability balances. Refer to note 19 in the Company's December 31, 2015 annual consolidated financial statements for a breakdown of the other liabilities balance and note 17 in the Company's December 31, 2015 annual consolidated financial statements for details of the debentures and other debt instruments.

Segregated Fund and Variable Annuity Guarantees

The Company offers retail segregated fund products, unitized with profits (UWP) products and variable annuity products that provide for certain guarantees that are tied to the market values of the investment funds.

The Company utilizes internal reinsurance treaties to aggregate the business as a risk-mitigating tool. Aggregation enables the Company to benefit from diversification of segregated fund risks within one legal entity, a more efficient and cost effective hedging process, and better management of the liquidity risk associated with hedging. It also results in the Company holding lower required capital and insurance contract liabilities, as aggregation of different risk profiles allows the Company to reflect offsets at a consolidated level.

In Canada, the Company offers individual segregated fund products through Great-West Life, London Life and Canada Life. These products provide guaranteed minimum death benefits (GMDB) and guaranteed minimum accumulation on maturity benefits (GMAB). In 2009, Great-West Life, London Life and Canada Life launched new individual segregated fund products which offer three levels of death and maturity guarantees, guarantee reset riders and lifetime guaranteed minimum withdrawal benefits (GMWB).

For a certain generation of products, the guarantees in connection with the Canadian individual segregated fund businesses of Great-West Life, London Life and Canada Life have been reinsured to London Reinsurance Group Inc. (LRG), a subsidiary of London Life. This does not include the guarantees on newer Canadian products, which have been reinsured to London Life. In addition to the guarantees reinsured from Great-West Life, London Life and Canada Life, LRG also has a closed portfolio of GMDB, GMAB and guaranteed minimum income benefits (GMIB) that it has reinsured from other U.S. and Canadian life insurance and reinsurance companies.

In Europe, the Company offers UWP products through Canada Life and unit-linked products with investment guarantees through Irish Life. These products are similar to segregated fund products, but include pooling of policyholders' funds and minimum credited interest rates. The Company also offers a GMWB product in Germany through Canada Life.

In the U.S., the Company offers variable annuities with GMDB through Great-West Financial. Most are a return of premium on death with the guarantee expiring at age 70. Great-West Financial in the U.S. also offers a GMWB product.

For policies with these guarantees, the Company generally determines policy liabilities for the guarantees at a CTE75 (conditional tail expectation of the 75th percentile) level. The CTE75 level determines the amount of policy liabilities as the amount required in excess of the policyholder funds in the average of the 25% worst scenarios tested, using scenario generating processes consistent with the Canadian Institute of Actuaries' Standards of Practice. Generally, if this amount is less than zero, then no policy liability is held for the guarantees.

For purposes of determining the required capital for these guarantees a Total Gross Calculated Requirement (TGCR) is determined and the required capital is equal to the TGCR less the policy liabilities held. The TGCR was $263 million at December 31, 2015 ($206 million at December 31, 2014). The Office of the Superintendent of Financial Institutions (OSFI) rules for the TGCR provide for a CTE98 level for cash flows within one year, CTE95 level for cash flows between one and five years, and between CTE90 level and CTE95 level for cash flows greater than five years. The TGCR is determined separately for business written on or after January 1, 2011, as this business is subject to more stringent rules and cannot be offset by business written prior to 2011. All Canadian business is valued using OSFI approved internal models or approved OSFI factors.

The GMWB products offered by the Company in Canada, the U.S. and Germany, and previously offered in Ireland, provide the policyholder with a guaranteed minimum level of annual income for life. The minimum level of income may increase depending upon the level of growth in the market value of the policyholder's funds. Where the market value of the policyholder's funds is ultimately insufficient to meet the level of guarantee purchased by the policyholder, the Company is obligated to make up the shortfall.

These products involve cash flows of which the magnitude and timing are uncertain and are dependent on the level of equity and fixed-income market returns, interest rates, currency markets, market volatility, policyholder behaviour and policyholder longevity.

The Company has a hedging program in place to manage certain risks associated with options embedded in its GMWB products. The program methodology quantifies both the embedded option value and its sensitivity to movements in equity markets, currency markets and interest rates. Equity derivative instruments, currency derivative instruments and interest rate derivative instruments are used to mitigate changes in the embedded option value attributable to movements in equity markets, currency markets and interest rates respectively. The hedging program, by its nature, requires continuous monitoring and rebalancing to avoid over or under hedged positions. Periods of heightened market volatility will increase the frequency of hedge rebalancing.

By their nature, certain risks associated with the GMWB product either cannot be hedged, or cannot be hedged on a cost effective basis. These risks include policyholder behaviour, policyholder longevity and basis risk and market volatility. Consequently, the hedging program will not mitigate all risks to the Company associated with the GMWB products, and may expose the Company to additional risks including the operational risk associated with the reliance upon sophisticated models, and counterparty credit risk associated with the use of derivative instruments.

Other risk management processes are in place aimed at appropriately limiting the Company's exposure to the risks it is not hedging or are otherwise inherent in this GMWB hedging program. In particular, the GMWB product has been designed with specific regard to limiting policyholder anti-selection, and the array of investment funds available to policyholders has been determined with a view to minimizing underlying basis risk.

The GMWB products offered by the Company offer levels of death and maturity guarantees. At December 31, 2015, the amount of GMWB product in-force in Canada, the U.S., Ireland and Germany was $3,488 million ($3,016 million at December 31, 2014).

Segregated fund and variable annuity guarantee exposure

		December 31, 2015 Investment deficiency by benefit type			
	Market Value	Income	Maturity	Death	Total (1)
Canada	$ 29,448	$ –	$ 48	$ 213	$ 213
United States	11,726	28	–	55	83
Europe					
Insurance & Annuities	8,853	3	–	444	444
Reinsurance (2)	1,240	441	–	29	470
Total Europe	10,093	444	–	473	914
Total	**$ 51,267**	**$ 472**	**$ 48**	**$ 741**	**$ 1,210**

(1) A policy can only receive a payout from one of the three trigger events (income election, maturity or death). Total deficiency measures the point-in-time exposure assuming the most costly trigger event for each policy occurred on December 31, 2015.

(2) Reinsurance exposure is to markets in Canada and the United States.

The investment deficiency measures the point-in-time exposure to a trigger event (i.e., income election, maturity or death) assuming it occurred on December 31, 2015. The actual cost to the Company will depend on the trigger event having occurred and the market values at that time. The actual claims before tax associated with these guarantees were $4 million in-quarter ($2 million for the fourth quarter of 2014) and $15 million year-to-date ($10 million year-to-date for 2014), with the majority arising in the Reinsurance business unit in the Europe segment.

Lifeco Capital Structure

In establishing the appropriate mix of capital required to support the operations of the Company and its subsidiaries, management utilizes a variety of debt, equity and other hybrid instruments giving consideration to both the short and long-term capital needs of the Company.

Debentures and Other Debt Instruments

At December 31, 2015, debentures and other debt instruments of $5,395 million were comparable to December 31, 2014.

Refer to note 17 in the Company's December 31, 2015 annual consolidated financial statements for further details of the Company's debentures and other debt instruments.

Capital Trust Securities

At December 31, 2015, the Company had $150 million principal outstanding of Canada Life Capital Trust Securities – Series B (CLiCS – Series B). Included in the Company's invested assets at December 31, 2015 were CLiCS – Series B with a fair value of $50 million and principal value of $37 million (fair value of $51 million at December 31, 2014).

Each holder of the CLiCS – Series B is entitled to receive a semi-annual non-cumulative fixed cash distribution of $37.645 per CLiCS – Series B, representing an annual yield of 7.529% payable out of Canada Life Capital Trust's (CLCT) distributable funds. Subject to regulatory approval, CLCT may redeem the CLiCS – Series B, in whole or in part, at any time and the CLiCS – Series B are callable at par on June 30, 2032.

EQUITY

Share capital outstanding at December 31, 2015 was $9,670 million, which comprises $7,156 million of common shares, $2,264 million of non-cumulative First Preferred Shares, $213 million of 5-year rate reset First Preferred Shares and $37 million of floating rate First Preferred Shares.

Common shares

At December 31, 2015, the Company had 993,350,331 common shares outstanding with a stated value of $7,156 million compared to 996,699,371 common shares with a stated value of $7,102 million at December 31, 2014.

The Company commenced a normal course issuer bid (NCIB) on December 9, 2014, that terminated on December 8, 2015, to purchase and cancel up to 8,000,000 of its common shares at market prices in order to mitigate the dilutive effect of stock options granted under the Company's Stock Option Plan. During the twelve months ended December 31, 2015, the Company repurchased and subsequently cancelled 6,279,856 common shares (2014 – 3,024,050) at an average cost per share of $35.17 (2014 – $31.60) under its NCIB.

Subsequent to December 31, 2015, in order to mitigate the dilutive effect of stock options granted under the Company's Stock Option Plan and for other capital management purposes, the Company commenced a NCIB on January 8, 2016 for one year, enabling the Company to purchase and cancel up to 8,000,000 of its common shares at market prices.

Preferred shares

At December 31, 2015, the Company had 10 series of fixed rate First Preferred Shares, one series of 5-year rate reset First Preferred Shares and one series of floating rate First Preferred Shares outstanding with aggregate stated values of $2,264 million, $213 million and $37 million, respectively.

The terms and conditions of the outstanding First Preferred Shares are set out in the table below:

	Great-West Lifeco Inc.					
	Series F	Series G	Series H	Series I	Series L	Series M
General Type	Fixed Rate	Fixed Rate	Fixed Rate	Fixed Rate	Fixed Rate	Fixed Rate
Cumulative/Non-Cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Date Issued	Jul 10, 2003	Sep 14, 2004	Aug 12, 2005	Apr 12, 2006	Oct 2, 2009	Mar 4, 2010
Shares Outstanding	7,740,032	12,000,000	12,000,000	12,000,000	6,800,000	6,000,000
Amount Outstanding (Par)	$193,531,075	$300,000,000	$300,000,000	$300,000,000	$170,000,000	$150,000,000
Yield	5.90%	5.20%	4.85%	4.50%	5.65%	5.80%
Earliest Issuer Redemption Date	Sep 30, 2008	Dec 31, 2009	Sep 30, 2010	Jun 30, 2011	Dec 31, 2014	Mar 31, 2015

	Great-West Lifeco Inc.					
	Series N [(1)]	Series O [(1)]	Series P	Series Q	Series R	Series S
General Type	5-Year Rate Reset	Floating Rate	Fixed Rate	Fixed Rate	Fixed Rate	Fixed Rate
Cumulative/Non-Cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Date Issued	Nov 23, 2010	Dec 31, 2015	Feb 22, 2012	Jul 6, 2012	Oct 11, 2012	May 22, 2014
Shares Outstanding	8,524,422	1,475,578	10,000,000	8,000,000	8,000,000	8,000,000
Amount Outstanding (Par)	$213,110,550	$36,889,450	$250,000,000	$200,000,000	$200,000,000	$200,000,000
Yield	2.176%	Floating	5.40%	5.15%	4.80%	5.25%
Earliest Issuer Redemption Date	Dec 31, 2015	Dec 31, 2015	March 31, 2017	Sep 30, 2017	Dec 31, 2017	Jun 30, 2019

(1) On December 31, 2015, at the election of certain holders of Series N, Non-Cumulative 5-Year Rate Reset First Preferred Shares, the Company converted 1,475,578 Series N Shares on an one-for-one basis into Series O, Non-Cumulative Floating Rate First Preferred Shares. The floating dividend rate for the Series O Shares issued on December 31, 2015 will be 1.742% for the period commencing on December 31, 2015 and ending on March 30, 2016. For the remaining Series N Shares, the annual fixed dividend rate for the five-year period commencing on December 31, 2015 and ending on December 30, 2020 will be 2.176% per annum (3.65% to December 30, 2015). The remaining Series N Shares are redeemable at the option of the Company on December 31, 2020 and on December 31 every five years thereafter for $25 per share plus all declared and unpaid dividends to the date fixed for redemption. Subject to the Company's right of redemption and certain other restrictions on conversion described in the Series N share conditions, each Series N share is convertible into one Series O share at the option of the holders on December 31, 2020 and on December 31 every five years thereafter. The Series O Shares are redeemable at the option of the Company for $25.50 per share, unless the shares are redeemed on December 31, 2020 or on December 31 every five years thereafter in which case the redemption price will be $25.00 per share, together in each case with all declared and unpaid dividends to but excluding the date of redemption. Subject to the Company's right of redemption and certain other restrictions on conversion described in the Series O share conditions, each Series O share is convertible into one Series N share at the option of the holders on December 31, 2020 and on December 31 every five years thereafter.

The terms and conditions of the Series F, G, H, I, L, M, N, O, P, Q, R and S First Preferred Shares do not allow the holder to convert to common shares of the Company or to otherwise cause the Company to redeem the shares. Preferred shares issued by the Company are commonly referred to as perpetual and represent a form of financing that does not have a fixed term.

Non-Controlling Interests

The Company's non-controlling interests include participating account surplus in subsidiaries and non-controlling interests in subsidiaries. Refer to note 20 in the Company's December 31, 2015 annual consolidated financial statements for further details of the Company's non-controlling interests.

Non-controlling interests

	December 31	
	2015	2014
Participating account surplus in subsidiaries:		
Great-West Life	**$ 607**	$ 579
London Life	**1,765**	1,720
Canada Life	**222**	167
Great-West Financial	**17**	14
	$ 2,611	$ 2,480
Non-controlling interests in subsidiaries	**$ 195**	$ 163

Liquidity and Capital Management and Adequacy

Liquidity

The Company's liquidity requirements are largely self-funded, with short-term obligations being met by internal funds and maintaining adequate levels of liquid investments. The Company holds cash, cash equivalents and short-term bonds at the Lifeco holding company level and with the Lifeco consolidated subsidiary companies. At December 31, 2015, the Company and its operating subsidiaries held cash, cash equivalents and short-term bonds of $7.1 billion ($7.3 billion at December 31, 2014) and other available government bonds of $35.6 billion ($32.8 billion at December 31, 2014). Included in the cash, cash equivalents and short-term bonds at December 31, 2015 was approximately $0.9 billion ($0.7 billion at December 31, 2014) at the Lifeco holding company level. In addition, the Company maintains sufficient committed lines of credit with Canadian chartered banks for unanticipated liquidity needs, if required.

The Company does not have a formal common shareholder dividend policy. Dividends on outstanding common shares of the Company are declared and paid at the sole discretion of the Board of Directors of the Company. The decision to declare a dividend on the common shares of the Company takes into account a variety of factors including the level of earnings, adequacy of capital and availability of cash resources.

As a holding company, the Company's ability to pay dividends is dependent upon the Company receiving dividends from its operating subsidiaries. The Company's operating subsidiaries are subject to regulation in a number of jurisdictions, each of which maintains its own regime for determining the amount of capital that must be held in connection with the different businesses carried on by the operating subsidiaries. The requirements imposed by the regulators in any jurisdiction may change from time to time, and thereby impact the ability of the operating subsidiaries to pay dividends to the Company. For entities based in Europe, the local solvency capital regime has changed to the Solvency II basis, effective January 1, 2016. During 2015, the Company's regulated European businesses prepared for the implementation of the new regulatory requirements and work will continue in 2016 towards obtaining additional approvals and managing the potential capital volatility under the new regulations in 2016.

Liquid assets and other marketable securities

	December 31	
	2015	2014
Liquid assets		
Cash, treasury bills and certificates of deposits	**$ 7,056**	$ 7,272
Government bonds	**35,576**	32,804
Total liquid assets	**42,632**	40,076
Other marketable securities		
Corporate bonds	**45,130**	40,255
Common/Preferred shares (public)	**7,054**	7,012
Residential mortgages – insured	**3,704**	3,745
Total	**$98,520**	$ 91,088

Cashable liability characteristics

	December 31	
	2015	2014
Surrenderable insurance and investment contract liabilities		
At market value	**$19,641**	$ 16,794
At book value	**47,403**	42,210
Total	**$67,044**	$ 59,004

The majority of the liquid assets and other marketable securities comprise fixed-income securities whose value is inversely related to interest rates. Consequently, a significant rise in prevailing interest rates would result in a decrease in the value of this pool of liquid assets. As well, a high interest rate environment may prompt holders of certain types of policies to terminate their policies, thereby placing demands on the Company's liquidity position.

The carrying value of the Company's liquid assets and other marketable securities is approximately $98.5 billion or 1.5 times the Company's expected total surrenderable insurance and investment contract liabilities. The Company believes that it holds a sufficient amount of liquid assets to meet unanticipated cash flow requirements prior to their maturity.

Cash Flows

Cash flows

	For the three months ended December 31		For the twelve months ended December 31	
	2015	2014	**2015**	2014
Cash flows relating to the following activities:				
Operations	**$ 1,063**	$ 712	**$ 5,123**	$ 5,443
Financing	**(194)**	(609)	**(1,683)**	(1,685)
Investment	**(1,802)**	(1,054)	**(3,424)**	(4,129)
	(933)	(951)	**16**	(371)
Effects of changes in exchange rates on cash and cash equivalents	**33**	23	**299**	78
Increase (decrease) in cash and cash equivalents in the period	**(900)**	(928)	**315**	(293)
Cash and cash equivalents, beginning of period	**3,713**	3,426	**2,498**	2,791
Cash and cash equivalents, end of period	**$ 2,813**	$ 2,498	**$ 2,813**	$ 2,498

The principal source of funds for the Company on a consolidated basis is cash provided by operating activities, including premium income, net investment income and fee income. These funds are used primarily to pay policy benefits, policyholder dividends and claims, as well as operating expenses and commissions. Cash flows generated by operations are mainly invested to support future liability cash requirements. Cash flow related financing activities include the issuance and repayment of capital instruments, and associated dividends and interest payments.

In the fourth quarter of 2015, cash and cash equivalents decreased by $900 million from September 30, 2015. Cash flows provided by operations during the fourth quarter of 2015 were $1,063 million, an increase of $351 million compared to the fourth quarter of 2014. Cash flows used in financing were $194 million, primarily used for payment of dividends to the preferred and common shareholders of $355 million, partially offset by an increase to a line of credit of a subsidiary of $161 million. For the three months ended December 31, 2015, cash flows were used by the Company to acquire an additional $1,802 million of investment assets.

For the twelve months ended December 31, 2015, cash and cash equivalents increased by $315 million from December 31, 2014. Cash flows provided by operations were $5,123 million, a decrease of $320 million compared to the same period in 2014. Cash flows used in financing were $1,683 million, primarily used for payment of dividends to the preferred and common shareholders of $1,424 million, the purchase and cancellation of $221 million in common shares and a $130 million decrease in a line of credit of a subsidiary. In the first quarter of 2015, the Company increased the quarterly dividend to common shareholders from $0.3075 per common share to $0.3260 per common share. For the twelve months ended December 31, 2015, cash flows were used by the Company to acquire an additional $3,424 million of investment assets.

Commitments/Contractual Obligations

Commitments/contractual obligations

	Payments due by period						
At December 31, 2015	Total	1 year	2 years	3 years	4 years	5 years	Over 5 years
1) Debentures and other debt instruments	$ 5,417	$ 467	$ 300	$ 200	$ –	$ 500	$ 3,950
2) Operating leases							
– office	463	113	98	85	52	39	76
– equipment	8	3	3	2	–	–	–
3) Purchase obligations	227	85	45	33	30	27	7
4) Credit-related arrangements							
(a) Contractual commitments	203	203	–	–	–	–	–
(b) Letters of credit	see note 4(b) below						
5) Pension contributions	198	198	–	–	–	–	–
Total contractual obligations	**$ 6,516**	**$ 1,069**	**$ 446**	**$ 320**	**$ 82**	**$ 566**	**$ 4,033**

1) Refer to note 17 in the Company's December 31, 2015 annual consolidated financial statements.

2) Operating leases include office space and certain equipment used in the normal course of business. Lease payments are charged to operations over the period of use. Subsequent to year-end, one of the Company's subsidiaries signed an office lease for 15 years commencing in 2018, for an additional commitment of $271 million over the period of the lease.

3) Purchase obligations are commitments to acquire goods and services, essentially related to information services.

4) (a) Contractual commitments are essentially commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines that are to be disbursed upon fulfillment of certain contract conditions.

(b) Letters of credit (LOC) are written commitments provided by a bank. The total amount of LOC facilities is US$2.9 billion of which US$2.7 billion were issued as of December 31, 2015.

The Reinsurance operation periodically uses letters of credit as collateral under certain reinsurance contracts for on balance sheet policy liabilities. The Company may be required to seek collateral alternatives if it is unable to renew existing LOCs on maturity. Various Lifeco subsidiaries have provided LOCs as follows:

To external parties

Clients residing in the United States are required pursuant to their insurance laws to obtain letters of credit issued on the Company's behalf from approved banks in order to further secure the Company's obligations under certain reinsurance contracts.

The Great-West Life Assurance Company has a LOC facility for US$600 million with a bank syndicate, which can be used by Great-West Life and its subsidiaries. As of December 31, 2015, Great-West Life subsidiaries have issued US$228 million to external parties.

The Great-West Life Assurance Company also has a LOC facility for US$325 million for use by Great-West Life and its subsidiaries. Under this facility, Canada Life has issued US$56 million to external parties. Subsequent to December 31, 2015, this facility was increased to US$375 million.

As well, certain London Reinsurance Group subsidiaries and London Life have provided LOCs totaling US$8 million to external parties.

To internal parties

GWL&A Financial Inc. has a US$1.2 billion LOC facility. As of December 31, 2015, US$1,180 million has been issued to the U.S. branch of Canada Life as beneficiary, to allow it to receive statutory capital credit for reserves ceded to Great-West Life & Annuity Insurance Company of South Carolina.

GWL&A also has a US$70 million LOC facility in place. As of December 31, 2015, US$70 million has been issued to Great-West Life & Annuity Insurance Company of South Carolina as beneficiary, to allow it to receive statutory capital credit.

The Canada Life Assurance Company has a £117 million LOC issued to Canada Life Limited (CLL) as beneficiary, to allow CLL to receive statutory capital credit in the United Kingdom for a loan made from The Canada Life Group (U.K.) Limited.

Canada Life Reinsurance has a US$500 million LOC facility. As of December 31, 2015, US$474 million has been issued to Canada Life's U.S. Branch.

In addition, using capacity from the facilities listed above, Great-West Life subsidiaries have issued US$550 million to other subsidiaries.

5) Pension contributions are subject to change, as contribution decisions are affected by many factors including market performance, regulatory requirements and management's ability to change funding policy. Funding estimates beyond one year are excluded due to the significant variability in the assumptions required to project the timing of future contributions.

Capital Management and Adequacy

At the holding company level, the Company monitors the amount of consolidated capital available and the amounts deployed in its various operating subsidiaries. The amount of capital deployed in any particular company or country is dependent upon local regulatory requirements, as well as the Company's internal assessment of capital requirements in the context of its operational risks and requirements and strategic plans.

The Company's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate. The capitalization decisions of the Company and its operating subsidiaries also give consideration to the impact such actions may have on the opinions expressed by various credit rating agencies that provide financial strength and other ratings to the Company.

In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the MCCSR ratio. The internal target range of the MCCSR ratio for Lifeco's major Canadian operating subsidiaries is 175% to 215% (on a consolidated basis).

Great-West Life's MCCSR ratio at December 31, 2015 was 238% (224% at December 31, 2014). London Life's MCCSR ratio at December 31, 2015 was 226% (247% at December 31, 2014). Canada Life's MCCSR ratio at December 31, 2015 was 260% (237% at December 31, 2014). The MCCSR ratio does not take into account any impact from $0.9 billion of liquidity at the Lifeco holding company level at December 31, 2015 ($0.7 billion at December 31, 2014).

In calculating the MCCSR position, available regulatory capital is reduced by goodwill and intangible assets, subject to a prescribed inclusion for a portion of intangible assets. The OSFI MCCSR Guideline also prescribes that quarterly re-measurements to defined benefit plans, impacting available capital for the Company's federally regulated subsidiaries, are amortized over twelve quarters.

At December 31, 2015, the Risk Based Capital (RBC) ratio of Great-West Financial, Lifeco's regulated U.S. operating company, is estimated to be 441% (417% at December 31, 2014) of the Company Action Level set by the National Association of Insurance Commissioners. Great-West Financial reports its RBC ratio annually to U.S. Insurance Regulators.

Due to the evolving nature of IFRS and proposed future changes to IFRS for the measurement of insurance contract liabilities, there will likely be further regulatory capital and accounting changes, some of which may be significant.

The Company has established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The capital plan is designed to ensure that the Company maintains adequate capital, taking into account the Company's strategy, risk profile and business plans. The Board of Directors reviews and approves the annual capital plan as well as capital transactions undertaken by management pursuant to the plan. In addition to undertaking capital transactions, the Company uses and provides traditional and structured reinsurance to support capital and risk management.

OSFI Regulatory Capital Initiatives

OSFI has commenced work on a number of initiatives that will have or may have application to the calculation and reporting of the MCCSR ratio of the Company or certain of its subsidiaries.

These initiatives are discussed in the 2013 OSFI Life Insurance Regulatory Framework. Within the Framework, there are three broad categories specific to regulatory capital amounts: the review of methodology used to determine capital requirements in connection with segregated fund guarantees; the review of the qualifying criteria and capital components of Available Capital; and the new regime for calculating capital requirements relating to credit, market, insurance and operational risk. In tandem with these reviews, OSFI will consider the extent of diversification benefits and hedging credits to reflect in its new framework.

The Company is presently reviewing the OSFI proposals that have been released to the industry to date, and is in ongoing dialogue with OSFI, the Canadian Institute of Actuaries, the Canadian Life and Health Insurance Association and other industry participants. The Company is also actively participating in OSFI Quantitative Impact Studies relating to its Life Insurance Regulatory Framework initiatives. At this point, the Company cannot determine what the final outcome of these initiatives will be.

CAPITAL ALLOCATION METHODOLOGY

The Company has a capital allocation methodology, which allocates financing costs in proportion to allocated capital. For the Canadian and European segments (essentially Great-West Life), this allocation method tracks the regulatory capital requirements, while for U.S. Financial Services and U.S. Asset Management (Putnam), it tracks the financial statement carrying value of the business units. Total leverage capital is consistently allocated across all business units in proportion to total capital resulting in a debt-to-equity ratio in each business unit mirroring the consolidated Company.

The capital allocation methodology allows the Company to calculate comparable Return on Equity (ROE) for each business unit. These ROEs are therefore based on the capital the business unit has been allocated and the financing charges associated with that capital.

Return on Equity [(1)]

	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014
Canada	**20.2%**	21.4%	22.1%
U.S. Financial Services [(2)]	**13.0%**	14.2%	16.3%
U.S. Asset Management (Putnam)	**1.4%**	(0.4)%	(3.6)%
Europe	**16.8%**	17.3%	17.7%
Lifeco Corporate	**(2.7)%**	(2.4)%	(5.3)%
Total Lifeco Net Earnings Basis	**14.7%**	15.2%	15.7%

(1) Return on Equity is the calculation of net earnings divided by the average common shareholders' equity over the trailing four quarters.
(2) Includes U.S. Corporate

The Company reported ROE of 14.7% at December 31, 2015 compared to 15.7% at December 31, 2014. While net earnings increased 8.5% in 2015, ROE decreased from the prior year as a result of the growth in the average common shareholders' equity which increased more than net earnings primarily due to the impact of currency movement as the U.S. dollar, British pound and euro strengthened against the Canadian dollar.

RATINGS

The Company's financial leverage ratio has been maintained at less than 30% during 2015, consistent with credit rating agencies' targets for highly rated entities and provides the Company with financial flexibility to invest in organic growth and acquisition strategies.

Lifeco maintains ratings from five independent ratings companies. In 2015, the credit ratings for Lifeco and its major operating subsidiaries were mostly unchanged, with the exception of the DBRS Limited (DBRS) ratings (set out in table below). The ratings changes from DBRS were the result of a methodology change, which included the replacement of the claims paying ability category with the financial strength category and the addition of an issuer rating. The senior debt rating for Lifeco was downgraded from AA (low) to A (high) as a result of the DBRS methodology change. The Company continues to receive strong ratings relative to its North American peer group resulting from its conservative risk profile, stable net earnings and consistent dividend track record.

Lifeco's operating companies are assigned a group rating from each rating agency. This group rating is predominantly supported by the Company's leading position in the Canadian insurance market and competitive positions in the U.S. and Europe. Great-West Life, London Life and Canada Life have common management, governance and strategy, as well as an integrated business platform. Each operating company benefits from the strong implicit financial support and collective ownership by Lifeco.

Rating agency	Measurement	Lifeco	Great-West Life	London Life	Canada Life	Great-West Financial
A.M. Best Company	Financial Strength		A+	A+	A+	A+
DBRS Limited	Issuer Rating	A (high)	AA			
	Financial Strength		AA	AA	AA	NR
	Senior Debt	A (high)				
	Subordinated Debt				AA (low)	
Fitch Ratings	Insurer Financial Strength		AA	AA	AA	AA
	Senior Debt	A				
Moody's Investors Service	Insurance Financial Strength		Aa3	Aa3	Aa3	Aa3
Standard & Poor's Ratings Services	Insurer Financial Strength		AA	AA	AA	AA
	Senior Debt	A+				
	Subordinated Debt				AA-	

Irish Life Assurance Plc (ILA) is not part of the group ratings. During 2015, Fitch Ratings upgraded the insurer financial strength of ILA from A+ to AA- and Standard & Poor's Ratings Services upgraded the long-term credit rating of ILA from A to A+. Subsequent to December 31, 2015, on January 26, 2016, Fitch Ratings upgraded Irish Life's insurer financial strength to AA from AA-. During 2015, the ILA €200 million perpetual capital notes assumed on the acquisition of Irish Life were upgraded from BBB+ to A- by Fitch Ratings and from BBB+ to A- by Standard & Poor's Ratings Services. Subsequent to December 31, 2015, on January 26, 2016, Fitch Ratings upgraded the rating of these notes from A- to A.

RISK MANAGEMENT

Effective risk management requires comprehensive processes to identify, assess and control the Company's risk exposures. Risk management is based on guiding principles applied consistently across all categories of risk and include:

- **Culture:** Disciplined risk management permeates throughout the Company and reflects the collective sense of responsibility to fulfill policyholder promises and safeguard the Company's financial strength and reputation;
- **Control:** Clearly defined risk policies and effective internal controls are key elements of risk governance;
- **Accountability:** Individuals authorized to commit the Company to courses of action are fully accountable for associated risks and their incentives are aligned with the Company's overall business objectives; and
- **Oversight:** The Risk Function independently monitors and challenges risk-taking activities.

The Company's risk governance model operates based on three lines of defense:

- **First line:** Business segments and support functions have primary responsibility for identifying and managing the risks inherent in the products, activities, processes and systems for which they are accountable;
- **Second line:** The Risk Function is primarily accountable for independent oversight of risk-taking; in this role, the Risk Function receives support from other second line functions including Actuarial, Compliance and Finance; and
- **Third line:** Internal Audit is accountable for independent assurance and validation of the design and effectiveness of the Company's risk management controls, processes and systems.

The Risk Function is embedded throughout the Company's businesses to ensure an integrated approach to managing current and emerging risks. The Risk Function supports the management of risk through the development and continuous improvement of effective risk management processes, which include the creation of appropriate controls, independent oversight and constructive challenge.

RISK MANAGEMENT ORGANIZATION

The Board of Directors is ultimately responsible for the Company's governance principles and policies. These include the Enterprise Risk Management (ERM) Policy, which establishes the guiding principles of risk management, and the Risk Appetite Framework (RAF), which reflects the aggregate levels and types of risk that the Company is willing to tolerate in its business activities and operations.

The Board of Directors addresses risk management primarily through its Risk Committee, which is responsible for:

- Approving and oversight of the ERM, credit, market, insurance and operational risk policies;
- Approving the risk limit framework;
- Monitoring adherence to risk limits and to risk policies, including reviewing policy exceptions;
- Reviewing top risk issues, exposures, emerging risks and the Company's risk culture;
- Reviewing stress testing including Dynamic Capital Adequacy Testing (DCAT), and Own Risk Solvency Assessment (ORSA); and
- Reviewing the performance and compensation of the Company's Chief Risk Officer (CRO) and providing input on appointment or removal.

Members of the Board Risk Committee are independent of management. The Governance and Nominating Committee of the Board of Directors regularly assess Board and Board Committee effectiveness.

Key Risk Management Bodies			
Board of Directors		Compliance	Internal Audit
Risk Committee			
Executive Risk Mgmt Committee (ERMC)			
Risk Specific Oversight Committees	**Regional Business Segment ERMCs**		
Credit Risk Management Committee	Canada		
Market Risk Committee	U.S.		
Insurance Risk Committee	Europe/Reinsurance		
Operational Risk Committee			

Under the Company's Board Risk Committee, the Executive Risk Management Committee (ERMC) oversees all forms of risk and implements the risk management framework. Four enterprise-wide sub-committees provide oversight of each of the key risk categories and regional ERMCs monitor all risk categories for businesses and operations within their respective segments. Other Board and Executive Management Committees also have certain responsibilities to ensure a comprehensive and effective framework of controls is in place to manage all risks.

The Company's CRO reports directly to the President and Chief Executive Officer (CEO) and to the Board Risk Committee. The Company's CRO leads the Risk Function and chairs the ERMC.

The Company's CRO is accountable to the Board Risk Committee for reporting on compliance with the ERM Policy and the RAF as well as for escalating matters that require attention, such as policy breaches and exceptions.

Risk resources and capabilities are aligned with the Company's businesses through local proximity and central areas of expertise and efficiency. Central expert resources embed common global processes into local responsibilities, support efficiency and provide a centre of expertise. Regional CROs, representing Canada, U.S. and Europe, have dual reporting relationships, both to the Company's CRO and to the leaders of their respective regions. Their key responsibilities include:

- Providing independent risk oversight and advisory support for all risk-taking activities across their region;
- Implementing the Company's Enterprise Risk Management Framework for their region and monitoring compliance with the Framework.

Risk Appetite Framework

The Company has a Risk Appetite Framework approved by the Board of Directors. This framework includes a risk strategy fully aligned with the business strategy; a Risk Appetite that reflects the levels and types of risk that the Company is willing to accept to achieve its business objectives; and enterprise risk limits, which are further broken down by business unit and risk type.

The Company's Risk Appetite Statement has four key components:

- **Strong Capital Position:** The Company maintains a strong balance sheet and does not take risks that would jeopardize its financial strength;
- **Mitigated Earnings Volatility:** The Company seeks to avoid substantial earnings shortfalls by managing risk concentration, limiting exposure to more volatile lines of business and seeking to diversify across various risk dimensions (e.g. product, distribution channel, counterparty and geography);
- **Strong Liquidity:** The Company maintains a high quality, diversified investment portfolio with sufficient liquidity to meet the demands of policyholder and financing obligations under normal and stressed conditions. The Company takes liquidity into consideration when designing products and entering into transactions; and
- **Maintaining the Company's Reputation:** The Company considers the potential reputational impact of all business activities and operations.

Risk Processes

Risk processes follow a cycle of: identification, measurement, management, monitoring and reporting and are designed to ensure both current and emerging risks are assessed against the RAF and any associated breaches are managed and mitigated.

Risk identification requires the structured analysis of the current and emerging risks facing the Company, so that they are understood and appropriately controlled. Processes ensure risks are considered, assessed and prioritized in all business initiatives and changes, including investment strategies, product design, significant transactions, annual planning and budgeting as well as potential mergers/acquisitions.

The Company has processes in place to continually identify risk exposures and where appropriate develops mitigation strategies to pro-actively manage these risks.

Effective risk management requires the selection and implementation of approaches to accept, reject, transfer, avoid or control risk, including mitigation plans. It is based on a control framework that includes approved risk limits, key risk indicators and early-warning triggers to ensure appropriate escalation and resolution of potential issues in a timely manner.

Risk measurement provides the means to quantify the risk profile, which can then be compared to the Company's approved risk limits. Risk metrics used at the Company include capital at risk, liquidity and earnings at risk. Any new business development or change in strategy warrants an independent assessment of risk and potential impact on reputation, including measurement of the impact on capital, earnings and liquidity. Stress testing is used to evaluate risk exposures against risk limits. Sensitivity testing of key risks is used to evaluate the impact of risk exposures independent of other risks. Scenario testing is used to evaluate the combined impact of multiple risk exposures.

A key responsibility of the Risk Function is to ensure that the risk appetite is applied consistently across the Company and limits are established such that risk exposures comply with the risk strategy, risk appetite and Company-wide risk policies.

Risk Monitoring, Reporting and Escalation

Risk monitoring relates to ongoing oversight and tracking of the Company's risk exposures, ensuring that the risk management approaches in place remain effective. Monitoring may also identify risk-taking opportunities. Both current and emerging risks are monitored.

Risk reporting presents an accurate and timely picture of existing and emerging risk issues and exposures as well as their potential impact on business activities.

Reporting highlights the risk profile relative to the risk appetite and associated risk limits. Changes to the risk profile and any proposed plans that align the risk profile relative to the risk appetite are also identified.

A clearly defined escalation protocol has been established in respect of breaches of the RAF, risk policies or operating standards and guidelines. Remediation plans are reviewed by the Risk Function and escalated to designated management and Board committees.

Risk Management and Control Practices

Insurance companies are in the business of assessing, structuring, pricing, assuming and managing risk. The types of risks are many and varied, and will be influenced by factors both internal and external to the businesses operated by the insurer. These risks, and the control processes used to manage the risks, may be broadly grouped into four categories:

1. Insurance Risks
2. Credit Risks
3. Market and Liquidity Risks
4. Operational/Other Risks

Insurance Risks

Insurance Risk Description

Insurance risk arises from the risk associated with contractual promises and obligations made under insurance contracts. Exposure to this risk results from adverse events occurring under specified perils and conditions covered by the terms of an insurance policy.

Insurance risk includes uncertainties around the ultimate amount of net cash flows (premiums, commissions, claims, payouts and related settlement expenses), the timing of the receipt and payment of these cash flows as well as the impact of policyholder behaviour (e.g. lapses).

Insurance Risk Management

By their nature, insurance products involve commitments by the insurer to provide services and financial obligations with coverage for extended periods of time. In order to provide insurance protection profitably, the insurer must design and price products so that the premiums received, and the investment income earned on those premiums, will be sufficient to pay future claims and expenses associated with the product. This requires the insurer, in pricing products and establishing insurance contract liabilities, to make assumptions regarding expected levels of income, claims and expenses and how policyholder behaviours might impact these assumptions. Although pricing on some products is guaranteed throughout the life of the contract, insurance contract liability valuation requires regular updating of assumptions to reflect emerging experience. Ultimate profitability will depend upon the relationship between actual experience and pricing assumptions over the contract period.

The Company maintains Corporate Product Design and Pricing Risk Management Policies and Corporate Reinsurance Ceded Risk Management Policies, which are reviewed and approved by the Board of Directors of the principal operating subsidiaries. These policies are intended to ensure that consistent guidelines and standards for the product design and pricing risk management processes and reinsurance ceded risk management practices associated with insurance business are followed across the Company. These policies outline the requirements of corresponding policies, including approval practices, that each line of business is required to develop, maintain and follow.

The Company maintains a Corporate Actuarial Valuation Policy, which sets out the documentation and control standards that are designed to ensure that valuation standards of the Canadian Institute of Actuaries and of the Company are applied across all lines of business and jurisdictions. Certifying Actuaries confirm their compliance with this policy quarterly.

The Company issues both participating and non-participating life insurance policies. The Company maintains accounts in respect of participating policies separately from those maintained in respect of other policies, as required by the Insurance Companies Act (Canada). Participating policies are those that entitle the holder of the policy to participate in the profits of the participating accounts of the Company pursuant to a policy for determining dividends to be paid to participating policyholders. The Company maintains Participating Policyholder Dividend Policies and Participating Account Management Policies, approved by the Board of Directors of the principal operating subsidiaries, which govern the management of participating accounts and provide for the distribution of a portion of the net earnings in the participating account as participating policyholder dividends. The Company also maintains methods for allocating to the participating account investment income, expenses and taxes of the Company. The Appointed Actuaries opine and annually report to the Board of Directors of the principal operating subsidiaries on the fairness and equity of these methods and that any participating policyholder dividends declared are in accordance with the Participating Policyholder Dividend Policy.

The following identifies the key insurance risks and risk management strategies used by the Company.

Risk	Management of Risk
Claims Mortality and Morbidity	
Mortality relates to the occurrence of death and morbidity relates to the incidence and duration of disability insurance claims, the incidence of critical conditions for critical illness insurance, and the utilization of health care benefits. There is a risk that the Company mis-estimates the level of mortality or morbidity, or accepts customers who generate worse mortality and morbidity experience than expected.	Research and analysis is done regularly to provide the basis for pricing and valuation assumptions to properly reflect the insurance and reinsurance risks in markets where the Company is active. Underwriting limits control the amount of risk exposure. Underwriting practices control the selection of risks insured for consistency with claims expectations. Underwriting policies have been developed to support the long-term sustainability of the business. The insurance contract liabilities established to fund future claims include a provision for adverse deviation, set in accordance with professional standards. This margin is required to provision for the possibilities of mis-estimation of the best estimate and/or future deterioration in the best estimate assumptions. The Company sets and adheres to retention limits for mortality and morbidity risks. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk. The Company manages large blocks of business, which, in aggregate, are expected to result in relatively low statistical fluctuations in any given period. For some policies, these risks are shared with the policyholder through adjustments to future policyholder charges or benefits usually constrained by contractual limits or in the case of participating policies through future changes in policyholder dividends. Effective plan design and claims adjudication practices, for both morbidity and mortality risks are critical to the management of the risk.
Concentration	
For Group life products, exposure to a multiple death scenario, due to concentration of risk in employment locations for example, could have an impact on financial results.	Risk concentrations are monitored for new business and renewals. Plan design features and medical underwriting limit the amount of insurance on any one life. The Company may impose single-event limits on some group plans and declines to quote in localized areas where the aggregate risk is deemed excessive.
Healthcare Cost Inflation	
For Group healthcare products, inflation and utilization will influence the level of claim costs. Claims utilization can be difficult to predict. The impact of aging, which plays a role in utilization, is well documented; however, the introduction of new services, such as breakthrough drug therapies, has the potential to substantially escalate benefit plan costs.	The Company manages the impact of these and similar factors through plan designs that limit new costs and long-term price guarantees, and through pricing that considers demographic and other trend factors.
Longevity	
Annuitants could live longer than was estimated by the Company.	Business is priced using prudent mortality assumptions, which take into account recent Company and industry experience and the latest research on expected future trends in annuitant mortality. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk. The Company has processes in place to verify annuitants' eligibility for continued income benefits. These processes are designed to limit annuity payments to those contractually entitled to receive them and helps ensure mortality data used to develop pricing assumptions is as complete as possible.
Policy Termination	
Many products are priced and valued to reflect the expected duration of contracts. There is a risk that the contract may be terminated before expenses can be recovered, to the extent that higher costs are incurred in early contract years. Risk also exists where the contract is terminated later than assumed, on certain long-term level premium products where costs increase by age. The risk also includes the potential cost of cash flow mismatch on book value products.	Business is priced using prudent policy termination assumptions, which take into account recent Company and industry experience and the latest research on expected future trends. Assumptions are reviewed regularly and are updated for future new issues as necessary. The Company also incorporates early surrender charges into contracts and incorporates commission claw backs in its distribution agreements to reduce unrecovered expenses. Policyholder taxation rules in many jurisdictions encourage the retention of insurance coverage.

Expense Management	
Increases in operating expenses could reduce profit margins.	Expense management programs are regularly monitored to control unit costs and form a component of management incentive compensation plans.
Interest Rate Pricing and Repricing	
Products are priced and valued based on the investment returns available on the assets that support the insurance and investment contract liabilities. If actual investment returns are different from those implicit in the pricing assumptions, actual returns in a given period may be insufficient to cover contractual guarantees and commitments or insurance and investment contract liability requirements. Products with long-term cash flows and pricing guarantees carry more risk.	There is regular and ongoing communication between pricing, valuation and investment management to establish appropriate interest rate assumptions, with a focus on closely matching assets and liabilities to minimize reinvestment risks, bearing in mind assets may not be available to match the liabilities, especially at longer durations.
Reinsurance Assumed	
The reinsurance business in particular has exposure to natural catastrophic events that result in property damage. As retrocessionaire for property catastrophe risk, the Company generally participates at significantly more remote event-loss exposures than primary carriers and reinsurers. Generally, an event of significant size must occur prior to the Company incurring a claim.	The Company limits the total maximum claim amount under all property catastrophe contracts. The Company monitors cedant companies' claims experience on an ongoing basis and incorporates their experience in pricing models to ensure that the compensation is adequate for the risk undertaken.
Investment Guarantees	
A significant decline in market values could increase the cost to the Company associated with segregated fund death, maturity, income and withdrawal guarantees. In addition, lower interest rates and increased policyholder utilization could increase the cost to the Company associated with general fund account guarantees, segregated fund income and withdrawal guarantees.	Prudent product design, effective marketing, asset allocation within client portfolios and our broad distribution within Canada and the U.S., all contribute to a significantly diverse profile of in-force segregated funds, issued steadily over many years, which helps to mitigate exposure in Canada and the U.S. to guarantees related to segregated funds. The Company has implemented a hedging program for segregated funds with withdrawal guarantees. This program consists of entering into equity futures, currency forwards, interest rate futures and swaps to mitigate exposure to the movement in the cost of withdrawal guarantees due to changes in capital markets.

Credit Risks

Credit Risk Description

Credit risk arises from an obligor's potential inability or unwillingness to fully meet its on and off-balance sheet contractual obligations. Exposure to this risk occurs any time funds are extended, committed or invested through actual or implied contractual agreements. Components of credit risk include loan loss/principal risk, pre-settlement/replacement risk and settlement risk.

Obligors include issuers, debtors, borrowers, brokers, policyholders, reinsurers, derivative counterparties and guarantors.

Credit Risk Management

The Company's credit risk management principles include an internal assessment of obligors' creditworthiness based on a thorough and objective analysis of business risk, financial profile, structural issues, security ranking and covenants. The assessment uses a combination of ongoing bottom-up credit analysis and top-down strategic views on the economy and industry sectors.

The Company has established credit risk processes which are designed to ensure that the Company has identified existing and emerging credit risks, and that these risks have been assessed against the RAF and risk limits, breaches have been escalated and appropriate risk mitigation strategies have been deployed.

The following identifies the key credit risks and risk management strategies used by the Company.

Risk	Management of Risk
The risk of loss if debtors, counterparties or intermediaries are unable or unwilling to fulfill their financial obligations.	It is Company policy to acquire only investment grade assets and minimize undue concentration of assets in any single geographic area, industry and company. Guidelines specify minimum and maximum limits for each asset class. Credit ratings for bonds are determined by an internal credit assessment, taking into consideration the ratings assigned by recognized rating agencies. These portfolios are monitored continuously and reviewed regularly with the Board of Directors or the Investment Committees.
The Company is a user of reinsurance and manages the associated reinsurance risk.	Underwriting guidelines set out minimum criteria for reinsurance counterparties. The Company cedes insurance risk in order to mitigate insurance risk. Counterparties providing reinsurance to the Company are reviewed for financial soundness as part of an ongoing monitoring process. The minimum financial strength of reinsurers is outlined in the Corporate Reinsurance Ceded Risk Management Policy. There are a limited number of large providers of reinsurance globally. By nature, the Company is exposed to systemic risk as well as larger individual exposures and seeks to limit the exposure to these companies in other areas. The level of investment in bonds or equities issued by these reinsurers is closely monitored. Reinsurance counterparty risk is also limited by seeking protection in the form of collateral or funds withheld arrangements where possible.
The Company engages with counterparties for its use of derivatives. The Company uses derivatives for risk mitigation purposes.	Investment policies include derivative counterparty limits and the Company seeks collateral arrangements where possible. Derivative products are traded through exchanges or with counterparties approved by the Board of Directors or the Investment Committees of the Board of Directors. The Company regularly monitors investment markets and economic conditions and may execute from time-to-time risk reduction programs, such as hedging.

Market and Liquidity Risks

Market and Liquidity Risk Description

Market risk and liquidity risk arise from potential changes in market rates, prices or liquidity in various markets, such as for interest rates, real estate, currency, common shares and commodities. Exposure to the risk results from investment and other business activities, which create on and off-balance sheet positions.

Market and Liquidity Risk Management

The Company is willing to accept market risk and liquidity risk in certain circumstances as a consequence of its business model and seeks to mitigate the risk wherever practical through the immunization of the assets and liabilities, either directly or indirectly.

The following identifies the key market and liquidity risks and risk management strategies used by the Company.

Risk	Management of Risk
Interest Rate Risk	
Interest rate risk exists if the cash flows of the liabilities and those of the assets supporting these liabilities are not closely matched and interest rates change causing a difference in value between the assets and liabilities.	Interest rate risk is managed by investing in assets that are suitable for the products sold. For products with fixed and highly predictable benefit payments, investments are made in fixed-income assets that closely match the liability product cash flows. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. Protection against interest rate change is achieved, as any change in the fair market value of the liabilities will be offset by a similar change in the fair value of the assets. For products with less predictable timing of benefit payments, investments are made in fixed-income assets with cash flows of shorter duration than the anticipated timing of the benefit payments. The Company regularly monitors market and liability developments and may execute from time-to-time risk reduction programs, such as hedging. Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims), the Company generally invests in real return instruments to hedge its real dollar liability cash flows. Some protection against changes in the inflation index is achieved, as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.
Equity Market Risk	
Given the volatility in equity markets, income in any year may be adversely affected by decreases in market values, notwithstanding the Company's long-term expectation of investment returns appropriate for this asset class. Returns from equities backing a portion of the non-adjustable life and living benefits insurance contract liabilities may be insufficient.	The Company's investment policy guidelines provide for prudent investment in equity markets within clearly defined limits. Exposure to common stocks and investment properties is managed to provide returns that are consistent with the requirements of the underlying segment. The Investment Policy sets out limits for equity investments. For those used to support non-adjustable policies, the time horizon for such investments is very long-term and the policy elements backed by these equities pose little or no liquidity risk. The allowable level of equities has been determined after carefully evaluating the tolerance for short-term income statement volatility and the balance between this volatility and long-term economic value.
Liquidity Risk	
The risk of loss if insufficient funds are available to meet anticipated operating and financing commitments and unexpected cash demands.	The Company closely manages operating liquidity through cash flow matching of assets and liabilities and maintaining adequate liquidity sources to cover unexpected payments. The Company forecasts earned and required yields to ensure consistency between policyholder requirements and the yield of assets.
There is a risk of default if the Company is unable to post adequate collateral with derivative counterparties.	The Company carefully considers whether to enter into derivative arrangements on a collaterized or uncollaterized basis. Where the Company or its subsidiaries enter into collaterized arrangements, the Company periodically tests the availability of suitable collateral under stress scenarios.
In the normal course of its Reinsurance business, the Company provides LOCs to other parties, or beneficiaries. A beneficiary will typically hold a LOC as collateral in order to secure statutory credit for insurance and investment contract liabilities ceded to or amounts due from the Company. The Company may be required to seek collateral alternatives if unable to renew existing LOCs at maturity.	Management monitors its use of LOCs on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit. The Company has contractual rights to reduce the amount of LOCs issued to the LOC beneficiaries for certain reinsurance treaties. Management staggers the maturities of its LOCs to reduce the renewal risk.

<table>
<tr><th>Foreign Exchange Risk</th><th></th></tr>
<tr><td>The Company's revenue, expenses and income denominated in currencies other than the Canadian dollar are subject to fluctuations due to the movement of the Canadian dollar against these currencies. Such fluctuations affect financial results. The Company has significant exposures to the U.S. dollar resulting from the operations of Great-West Financial and Putnam in the United States segment and Reinsurance and to the British pound and the euro resulting from operations in the U.K., Isle of Man, Ireland and Germany in the Europe segment.

The Company has net investments in foreign operations. In addition, the Company's debt obligations are mainly denominated in Canadian dollars. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in accumulated other comprehensive income (loss). Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates impacts the Company's total share capital and surplus. Correspondingly, the Company's book value per share and capital ratios monitored by rating agencies are also impacted.

• A 1% appreciation (depreciation) of the average exchange rate of the Canadian dollar to the U.S. dollar, British pound and euro together would decrease (increase) operating earnings in 2015 by $15 million.
• A 1% appreciation (depreciation) of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates together would decrease (increase) the unrealized foreign currency translation losses in accumulated other comprehensive income (loss) of shareholders' equity by $153 million as at December 31, 2015.</td><td>Management may use forward foreign currency contracts and foreign denominated debt to mitigate the volatility arising from the movement of rates as they impact the translation of net investments in foreign operations.

The Company uses non-IFRS financial measures such as constant currency calculations to assist in communicating the effect of currency translation fluctuation on financial results.

Investments are normally denominated in the same currency as the liabilities they support.

Foreign currency assets acquired to back liabilities are generally converted back to the currency of the liabilities using foreign exchange contracts.</td></tr>
<tr><th>Derivative Instruments</th><th></th></tr>
<tr><td>There is a risk of loss if derivatives are used for inappropriate purposes.</td><td>Approved policies only allow derivatives to be used to hedge imbalances in asset and liability positions or as substitutes for cash instruments.

The Company's risk management process governing the use of derivative instruments requires that the Company act only as an end-user of derivative products, not as a market maker.

The use of derivatives may include interest rate, foreign exchange and equity swaps, options, futures and forward contracts, as well as interest rate caps, floors and collars.

There were no major changes to the Company's and its subsidiaries' policies and procedures with respect to the use of derivative financial instruments in 2015.</td></tr>
</table>

Operational/Other Risks

Operational Risk Description

Operational risk is the risk of loss arising from potential issues related to internal processes, people and systems or from external events. Exposure to operational risk results from either normal day-to-day operations or a specific unanticipated event, and can have material financial and/or reputational consequences. This includes fraud, infrastructure, legal and regulatory, outsourcing, people, process and other risks.

Operational Risk Management

The Company implements controls to mitigate operational risk through integrated and complementary policies, procedures, processes and practices, with consideration given to the cost/benefit trade-off.

Through the Company's corporate insurance program, the Company transfers a portion of operational risk exposure by purchasing insurance coverage that provides some protection against unexpected material losses resulting from events such as criminal activity, property loss or damage and liability exposures. The Company also purchases certain insurance to satisfy legal requirements and/or contractual obligations. The nature and amount of insurance protection purchased is assessed with regard to the Company's enterprise-wide risk profile and the appetite and tolerance for the associated risks.

The following identifies the key operational and other risks and risk management strategies used by the Company.

Risk	Management of Risk
Operational Risk	
There is a risk of direct or indirect loss resulting from inadequate or failed internal processes (including modelling and outsourcing risks), people and systems (including cyber risk) or from external events. Operational risk also includes risks arising from significant change management initiatives such as business model changes, mergers and acquisitions, major systems implementation, new product introductions and leadership changes.	The Company manages and mitigates internal operational risks through integrated and complementary policies, procedures, processes and practices. Human Resources hiring, performance evaluation, promotion and compensation practices are designed to attract, retain and develop the skilled personnel required. A comprehensive job evaluation process is in place and training and development programs are supported. Each business area provides training designed for their specific needs and has developed appropriate internal controls. Processes and controls are monitored and refined by the business areas and periodically reviewed by the Company's Internal Audit department. Financial reporting processes and controls are further examined by external auditors. The Company applies a robust project management discipline to all significant initiatives. Appropriate security measures protect premises and information. The Company has emergency procedures in place for short-term incidents or outages and is committed to maintaining business continuity and disaster recovery plans in every business location for the recovery of critical functions in the event of a disaster, which include offsite backup data storage and alternative work area facilities.
Changes in Managed Asset Values	
The Company's investment fund businesses are fee-based, with revenue and profitability based primarily on the market value of investment fund assets under management. Accordingly, fee income derived in connection with the management of investment funds generally increases or decreases in direct relationship with changes of assets under management, which is affected by prevailing market conditions, and the inflow and outflow of client assets (including purchases and redemptions). Factors that could cause assets under management and revenues to decrease include declines in equity markets, changes in fixed-income markets, changes in interest rates and defaults, redemptions and other withdrawals, political and other economic risks, changing investment trends and relative investment performance. The risk is that fees may vary but expenses and recovery of initial expenses are relatively fixed, and market conditions may cause a shift in asset mix potentially resulting in a change in revenue and income.	Through its wide range of funds, the Company seeks to limit its risk exposure to any particular financial market. In its Canadian segregated fund business, the Company encourages its clients to follow a diversified long-term asset allocation approach to reduce the variability of returns and the frequency of fund switching. As a result of this approach, a significant proportion of individual segregated fund assets are in holdings of either a diversified group of funds or "fund of funds" investment profiles, which are designed to improve the likelihood of achieving optimal returns within a given level of risk. The investment process for assets under management is primarily based upon fundamental research with quantitative research and risk management support. Fundamental research includes valuation analysis, economic, political, industry and company research, company visits, as well as the utilization of such sources as company public records and activities, management interviews, company prepared information, and other publicly available information, as well as analyses of suppliers, customers and competitors. Quantitative analysis includes the analysis of past trends and the use of sophisticated financial modeling to gauge how particular securities may perform. Putnam's risk management capability analyzes securities across all the Putnam Funds and other portfolios to identify areas of over concentration and other potential risks. In some cases, the Company charges fees that are not related to assets but are based on premiums or other metrics, which reduces the sensitivity of income to market movements.

Staff Recruitment/Retention	
The Company is highly dependent on its ability to attract, retain and motivate highly skilled, and often highly specialized, personnel. The market for these professionals is extremely competitive and is increasingly characterized by movement among different organizations. The loss of the services of key personnel or failure to attract replacement or additional qualified personnel could negatively affect financial performance. Failure to offer or maintain competitive compensation packages may result in increased levels of turnover among these professionals. Any increase in compensation to attract or retain key personnel could result in a decrease in net earnings. Departure of key personnel could lead to the loss of clients, which could have an adverse effect on results of operations and financial condition.	The Company uses external consultants to obtain benchmark compensation data and works closely with the Board of Directors to develop competitive compensation packages for key personnel. The Company also uses incentive based compensation instruments such as share grants of Putnam and Lifeco share options to retain and attract key personnel. Compensation of this type generally links the performance of the Company and an employee's ultimate compensation.
Contract Termination	
The retirement and investment services and asset and wealth management businesses derive substantially all of their revenue and net earnings from investment advisory agreements and service agreements with mutual funds and from other investment products. The contracts are terminable on relatively short notice without cause and management and distribution fees must be approved annually. The termination of, or failure to renew, one or more of these agreements or the reduction of the fee rates applicable to such agreements, could impact the Company's revenues and profits.	The Company devotes substantial resources to the investment management process and seeks to achieve consistent, dependable and superior performance results over time for all client portfolios. Assets under management are spread across a wide range of investment objectives, which creates diversity in the product lines. The Company's exposure to the segregated and mutual funds is spread across many individual funds. Considerable resources are devoted to maintaining a strong relationship with the Plan trustees or other applicable fiduciaries of the funds under the relevant agreements. Company representatives meet frequently with the various committees, Plan trustees and other fiduciaries to fulfill legal reporting requirements, keep them apprised of business developments, renegotiate contracts and/or address any issues they may have.
Access to Distribution	
The Company's ability to market its products is significantly dependent on its access to a client base of individual, corporate and public employee pension funds, defined contribution plan administrators, endowment funds, domestic and foreign institutions and governments, insurance companies, securities firms, brokers, banks, and other intermediaries. These intermediaries generally offer their clients products in addition to, and in competition with, the Company's products, and are not obligated to continue working with the Company. In addition, certain investors rely on consultants to advise them on the choice of advisor and consultants may not always consider or recommend the Company. The loss of access to a distribution channel, the failure to maintain effective relationships with intermediaries, or the failure to respond to changes in distribution channels could have a significant impact on the Company's ability to generate sales.	The Company has a broad network of distribution relationships. Products are distributed through numerous broker dealers, managing general agencies, financial planners, banks and other financial institutions. In addition, Putnam has certain strategic alliances with investment management firms internationally. Putnam relies on its extensive global distribution group to market the Putnam Funds and other investment products across all major retail, institutional and retirement plan distribution channels.

Holding Company Structure	
As a holding company, the Company's ability to pay interest, dividends and other operating expenses and to meet its obligations generally depends upon receipt of sufficient funds from its principal subsidiaries and its ability to raise additional capital. In the event of the bankruptcy, liquidation or reorganization of any of these subsidiaries, insurance and investment contract liabilities of these subsidiaries will be completely provided for before any assets of such subsidiaries are made available for distribution to the Company; in addition, the other creditors of these subsidiaries will generally be entitled to the payment of their claims before any assets are made available for distribution to the Company except to the extent that the Company is recognized as a creditor of the relevant subsidiaries. Any payment (including payment of interest and dividends) by the principal subsidiaries is subject to restrictions set forth in relevant insurance, securities, corporate and other laws and regulations which require that solvency and capital standards be maintained by Great-West Life, London Life, CLFC, Canada Life, Great-West Financial, and their subsidiaries and certain subsidiaries of Putnam. There are considerable risks and benefits related to this structure.	Management closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company level. Additional liquidity is available through established lines of credit and the Company's demonstrated ability to access capital markets for funds. Management actively monitors the regulatory laws and regulations at both the holding company and operating company levels to ensure ongoing compliance.
Ratings	
Financial strength, claims paying ability ratings and ratings related to the issuance of financial instruments represent the opinions of rating agencies regarding the financial ability of Lifeco and its principal subsidiaries to meet its obligations, and are an important factor in establishing the competitive position of life insurance companies and affect financing costs. Rating organizations regularly analyze the financial performance and condition of insurers, including the Company's subsidiaries. Any ratings downgrades, or the potential for such downgrades, of the Company's subsidiaries could increase surrender levels of their insurance and annuity products and constrain the Company's ability to market and distribute products and services, and damage the Company's relationships with creditors, which may adversely impact future business prospects. These ratings represent an important consideration in maintaining customer confidence in the Company's subsidiaries and in their ability to market insurance and annuity products.	The Company strives to manage to a target credit rating by diligently monitoring the evolution of the rating criteria and processes of the various rating agencies.
Future Acquisitions	
From time-to-time, Lifeco and its subsidiaries evaluate existing companies, businesses, products and services, and such review could result in Lifeco or its subsidiaries disposing of or acquiring businesses or offering new, or discontinuing existing products and services. In the ordinary course of their operations the Company and its subsidiaries consider and discuss with third parties the purchase or sale of companies, businesses or business segments. If effected, such transactions could be material to the Company in size or scope, and could result in changes in the value of the securities of Lifeco, including the common shares of Lifeco.	Lifeco undergoes extensive due diligence upon any consideration of acquiring or disposing of businesses or companies or offering new, or discontinuing existing, products and services. In its consideration of strategic acquisitions, the Company may determine it to be prudent to hold additional capital for contingencies that may arise during the integration period following an acquisition.

Legal and Regulatory Risk	
The Company and certain of its principal subsidiaries are subject to various legal and regulatory requirements imposed by common and civil law, legislation and regulation in Canada, the U.S., the U.K., Ireland and other jurisdictions applicable to reporting issuers and to insurance companies and companies providing investment management and other financial services (including supervision by governmental authorities in the jurisdictions in which they carry on business). These requirements, which include capital adequacy, liquidity and solvency requirements, investment restrictions, restrictions on the sale and marketing of insurance and annuity products and on the business conduct of insurers, asset managers and investment advisors, are primarily intended to protect policyholders, beneficiaries and investment advisory clients, not shareholders. Material changes in the legal or regulatory framework or the failure to comply with legal and regulatory requirements, which in turn could lead to financial sanctions or penalties and damage to the Company's reputation, could have a material adverse effect on the Company. Regulators may reassess capital requirements from time-to-time and require additional capital to be held in various regulated subsidiaries. As well, regulatory capital requirements influence liquidity and the amount of capital that must be held by various regulated subsidiaries of the Company in particular jurisdictions and constrain the movement of capital from jurisdiction to jurisdiction, and accordingly such requirements may restrict the ability of such subsidiaries to declare and pay dividends to the Company. Potential regulatory changes in Canada include new guidance on capital requirements (OSFI's "Roadmap") currently expected in 2018, as well as new capital requirements for European entities, Solvency II basis, effective January 1, 2016. New IFRS guidance including a revised standard on Insurance Contracts is being developed that may introduce significant changes to the valuation of insurance contract liabilities and the presentation of results in financial statements. While there are significant uncertainties, as drafted, these accounting and regulatory developments may impact the financial position of the Company by subjecting the Company to widely fluctuating levels of reserve and capital requirements, which would increase earnings volatility, therefore impacting the Company's flexibility to distribute cash to its providers of capital in the future. The Company and its subsidiaries operate in an increasingly regulated and litigious environment and as such are from time-to-time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could be material to the Company, or could result in significant damage to the reputation of the Company, which could in turn adversely impact future business prospects.	The Company monitors compliance with the legal, regulatory, accounting and other standards and requirements in all jurisdictions where it conducts business and assesses trends in legal and regulatory change to keep business areas current and responsive. The risk of legal actions is managed through the various risk management and control practices described in this "Risk Management and Control Practices" section of this MD&A.

Reputational Risk	
In the course of its business activities, the Company may be exposed to the risk that some actions may lead to damage to the Company's reputation and hence damage to its future business prospects. These actions may include unauthorized activities of employees or other people associated with the Company, inadvertent actions of the Company that become publicized and damage the Company's reputation, regular or past business activities of the Company that become the subject of regulator or media scrutiny and, due to a change of public perception, cause damage to the Company, or any other action or activity that gives rise to damage to the Company's general reputation.	The Company has ongoing controls to limit the unauthorized activities of people associated with the Company. The Company has adopted a Code of Business Conduct and Ethics, which sets out the standards of business conduct to be followed by all directors, officers and employees of the Company. Further, the directors, officers and employees are required to sign off annually on their compliance with the Code of Business Conduct and Ethics. The Company also reacts to address situations that may escalate to a level that might give rise to damage to its reputation.
Reinsurance	
Through its subsidiaries, the Company is both a user and a provider of reinsurance, including both traditional reinsurance ceded, which is undertaken primarily to mitigate against assumed insurance risks, and structured reinsurance, under which the amount of insurance risk passed to the reinsurer or its reinsureds may be more limited. The Company is required to pledge amounts of collateral or deposit amounts with counterparties in certain reinsurance transactions according to contractual terms. These arrangements could require additional requirements in the future depending on regulatory and market developments. While there are significant uncertainties in these developments and the associated impact on the financial position of the Company, these may impact the Company's financial flexibility.	The Company accounts for all reinsurance transactions in accordance with IFRS. In some cases, IFRS may differ from the accounting treatment utilized by the Company's reinsurers or its reinsureds based upon the rules applicable to them in their reporting jurisdictions. The Company believes that reinsurance transactions that it has entered into are appropriate and properly accounted for by the Company. The Company maintains a Corporate Reinsurance Ceded Risk Management policy, which is reviewed and approved by the operating subsidiaries. Annually, the Chief Actuaries report to the Risk Committees, confirming compliance with the policy.
Support Systems and Customer Service Functions	
The ability to consistently and reliably obtain securities pricing information, accurately process client transactions and provide reports and other customer services is essential to the Company's operations. A failure of any of these systems could have an adverse effect on the Company's results of operations and financial condition. In addition, any delays or inaccuracies in obtaining pricing information, processing client transactions or providing reports, in addition to any inadequacies in other customer service could lead to loss of client confidence, harm to the Company's reputation, exposure to disciplinary action, and liability to the Company's clients. As part of normal operations, the Company maintains and transmits confidential information about its clients and proprietary information relating to its business operations. The Company could be subject to losses if it fails to properly safeguard sensitive and confidential information.	The Company's operations work with its systems and service providers to obtain reliability, security and efficiency of information systems. The Company utilizes high quality external systems and maintains controls relating to information security and also works with service providers to verify and assess the sufficiency of their controls.

Pension Risk	
The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans; the costs of these defined benefit plans are dependent on a host of factors including discount rates, returns on plans assets, compensation costs, inflation risks, employee service life, government regulations, and variances between expected and actual actuarial results. In the event that the pension plan assets do not achieve sustained growth over time and potential negative impact of the cost factors above, the Company could have a significant increase in pension funding obligations and costs that could reduce cash flows and profit margins. In certain jurisdictions, recent changes and proposed reform to government regulations could have a significant impact on the plans.	Pension risk is managed by regular monitoring of the plans, pension regulations and other factors that could impact the expenses and cash flows of the Company. The Company has a Pension Committee that provides oversight for the pension plans of the Company. Pension plan regulations are monitored on an ongoing basis to assess the impact of changes to government regulations on the status, funding requirements and financial results of the Company. Plan assumptions are reviewed regularly both internally and by external advisors and updated as necessary to reflect the latest research on expected future trends. The pension plans and assumptions are subject to external audit on an annual basis. The Company has introduced defined contribution plans for new employees in a number of jurisdictions in order to reduce the risks to the Company inherent in defined benefit plans.
Environmental Risk	
Environmental risk is the risk of direct or indirect loss to the Company's financial results or operations or reputation resulting from the impact of environmental issues or costs associated with changes in environmental laws and regulations.	The Company endeavours to respect the environment and to take a balanced and environmentally sustainable approach to conducting business. The Company will not knowingly acquire investments with significant environmental risks. The Company has established environmental policies and guidelines pertaining to the acquisition and ongoing management of investment properties, loans secured by real property and investments in equity and fixed-income securities. These policies are approved by the Board of Directors and are reviewed annually. One of the Company's subsidiaries, GWL Realty Advisors Inc. (GWLRA) has an Environmental Management Plan (EMP) created to ensure compliance with applicable environmental legislation and outline best practice guidelines and procedures in responsible management practices designed to protect and preserve the environment and provide oversight on environmental matters on properties owned by the Company (Great-West Life, London Life and Canada Life) and third-party clients. The properties for which GWLRA provides property management services are also administered under the EMP to ensure compliance with applicable federal, provincial and municipal environmental legislation, by laws, codes, policies and undertaking a leadership position with their clients and within the real estate industry. GWLRA carries out ongoing reviews of environmental objectives, programs, policies and procedures to ensure consistency, effectiveness, quality and application, and establishes and maintains best practices through corporate programs and initiatives and emphasizes environmental awareness among staff, service providers and clients. To quantify efforts in sustainability, GWLRA produces an annual Greenhouse Gas (GHG) Emissions Inventory Report for its assets under management. GWLRA also incorporates environmental, social and governance factors within its Annual Review, published in accordance with the Global Reporting Initiative G4 reporting guidelines. Assets under management are monitored nationally and measured for environmental performance, which includes energy and water consumption, GHG emissions and waste production and diversion rates. Monitoring is carried out together with third-party environmental consultants. GWLRA's property management and leasing functions are conducted in accordance with environmental laws and prudent industry practices. The Company strives to reduce its environmental footprint through energy conservation and waste reduction that entails recycling programs, periodic waste diversion audits and performance benchmarking. For more information on the Company's environmental policies and initiatives, refer to the Public Accountability Statement available on the Canadian operating subsidiaries websites. The Company monitors relevant emerging issues, regulations and requirements through collaboration with its environmental and legal consultants. The Environmental Committee of GWLRA reviews policies and procedures on an annual basis and revises established policies and guidelines as required.

ACCOUNTING POLICIES

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenue and expenses during the reporting period. The results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. The estimation of insurance contract liabilities relies upon investment credit ratings. The Company's practice is to use third-party independent credit ratings where available.

The significant accounting estimates include the following:

Fair Value Measurement

Financial and other instruments held by the Company include portfolio investments, various derivative financial instruments, debentures and other debt instruments.

Financial instrument carrying values reflect the liquidity of the markets and the liquidity premiums embedded in the market pricing methods the Company relies upon.

The Company's assets and liabilities recorded at fair value have been categorized based upon the following fair value hierarchy:

Level 1 inputs utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Refer to note 8 in the Company's December 31, 2015 annual consolidated financial statements for disclosure of the Company's financial instruments fair value measurement at December 31, 2015.

Fair values for bonds classified as fair value through profit or loss or available-for-sale are determined using quoted market prices. Where prices are not quoted in a normally active market, fair values are determined by valuation models primarily using observable market data inputs. Market values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates.

Fair values for public stocks are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows based on expected dividends and where market value cannot be measured reliably, fair value is estimated to be equal to cost. Fair values for investment properties are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

Investment impairment

Investments are reviewed regularly on an individual basis to determine impairment status. The Company considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults and delinquency in payments of interest or principal. Investments are deemed to be impaired when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due. The market value of an investment is not by itself a definitive indicator of impairment, as it may be significantly influenced by other factors including the remaining term to maturity and liquidity of the asset. However, market price must be taken into consideration when evaluating impairment.

For impaired mortgages and bonds classified as loans and receivables, provisions are established or write-offs are recorded to adjust the carrying value to the estimated realizable amount. Wherever possible, the fair value of collateral underlying the loans or observable market price is used to establish the estimated realizable value. For impaired available-for-sale loans, recorded at fair value, the accumulated loss recorded in accumulated other comprehensive income (loss) is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. All gains and losses on bonds classified or designated as fair value through profit or loss are already recorded in income; therefore, a reduction due to impairment of these assets will be recorded in net investment income. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

Goodwill and intangibles impairment testing

Goodwill and intangible assets are tested for impairment annually or more frequently if events indicate that impairment may have occurred. Intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal. In the event that certain conditions have been met, the Company would be required to reverse the impairment charge or a portion thereof.

Goodwill and indefinite life intangible assets have been allocated to cash generating units (CGU), representing the lowest level that the assets are monitored for internal reporting purposes. Goodwill and indefinite life intangible assets are tested for impairment by comparing the carrying value of each cash generating unit groupings containing the assets to its recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of the asset's fair value less costs of disposal and value-in-use, which is calculated using the present value of estimated future cash flows expected to be generated.

Insurance and investment contract liabilities

Insurance and investment contract liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in-force with the Company. The Appointed Actuaries of the Company's subsidiaries are responsible for determining the amount of the liabilities to make appropriate provisions for the Company's obligations to policyholders. The Appointed Actuaries determine the insurance and investment contract liabilities using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation of insurance contracts uses the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of mis-estimation and/or future deterioration in the best-estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Investment contract liabilities are measured at fair value determined using discounted cash flows utilizing the yield curves of financial instruments with similar cash flow characteristics.

The methods for arriving at these valuation assumptions are outlined below:

Mortality – A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update the Company's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Mortality improvement has been projected to occur for the next 25 years. In addition, appropriate provisions have been made for future mortality deterioration on term insurance. A 2% increase in the best estimate assumption would cause a decrease in net earnings of approximately $282 million.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants. A 2% decrease in the best estimate assumption would cause a decrease in net earnings of approximately $314 million.

Morbidity – The Company uses industry developed experience tables modified to reflect emerging company experience. Both claim incidence and termination are monitored regularly, and emerging experience is factored into the current valuation. For products for which morbidity is a significant assumption, a 5% decrease in best estimate termination assumptions for claim liabilities and a 5% increase in best-estimate incidence assumptions for active life liabilities would cause a decrease in net earnings of approximately $225 million.

Property and casualty reinsurance – Insurance contract liabilities for property and casualty reinsurance written by LRG are determined using accepted actuarial practices for property and casualty insurers in Canada. The insurance contract liabilities are based on cession statements provided by ceding companies. In certain instances, LRG management adjusts cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. In addition, insurance contract liabilities also include an amount for incurred but not reported losses, which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated and adjustments to estimates are reflected in net earnings. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in depth analysis is undertaken of the cedant experience.

Investment returns – The assets that correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in CALM to determine insurance and investment contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under a number of interest rate scenarios (including increasing, decreasing and fluctuating rates) is done to assess reinvestment risk. The total provision for interest rates is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries' prescribed scenarios.

The range of interest rates covered by these provisions is set in consideration of long-term historical results and is monitored quarterly with a full review annually. An immediate 1% parallel shift in the yield curve would not have a material impact on the Company's view of the range of interest rates to be covered by the provisions.

The total provision for interest rates also considers the impact of the Canadian Institute of Actuaries' prescribed scenarios.

- The effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios would not change the total provision for interest rates.
- The effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios would not change the total provision for interest rates.

If sustained, however, the parallel shift could impact the Company's range of scenarios covered.

Another way of measuring the interest rate risk associated with this assumption is to determine the effect on the insurance and investment contract liabilities impacting the shareholders' earnings of the Company of a 1% change in the Company's view of the range of interest rates to be covered by these provisions.

- The effect of an immediate 1% increase in the low and high end of the range of interest rates recognized in the provisions would be to decrease these insurance and investment contract liabilities by approximately $163 million causing an increase in net earnings of approximately $109 million.
- The effect of an immediate 1% decrease in the low and high end of the range of interest rates recognized in the provisions would be to increase these insurance and investment contract liabilities by approximately $614 million causing a decrease in net earnings of approximately $430 million.

In addition to interest rates, the Company is also exposed to movements in equity markets.

Some insurance and investment contract liabilities are supported by investment properties, common stocks and private equities; for example segregated fund products and products with long-tail cash flows. Generally, these liabilities will fluctuate in line with equity values. There will be additional impacts on these liabilities as equity values fluctuate.

- A 10% increase in equity values would be expected to additionally decrease non-participating insurance and investment contract liabilities by approximately $53 million, causing an increase in net earnings of approximately $45 million.
- A 10% decrease in equity values would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately $139 million, causing a decrease in net earnings of approximately $108 million.

The best-estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows.

- A 1% increase in the best estimate assumption would be expected to decrease non-participating insurance contract liabilities by approximately $534 million causing an increase in net earnings of approximately $433 million.
- A 1% decrease in the best estimate assumption would be expected to increase non-participating insurance contract liabilities by approximately $573 million causing a decrease in net earnings of approximately $457 million.

Expenses – Contractual policy expenses (e.g., sales commissions) and tax expenses are reflected on a best estimate basis. Expense studies for indirect operating expenses are updated regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. Improvements in unit operating expenses are not projected. An inflation assumption is incorporated in the estimate of future operating expenses consistent with the interest rate scenarios projected under CALM as inflation is assumed to be correlated with new money interest rates. A 5% increase in the best estimate maintenance unit expense assumption would cause a decrease in net earnings of approximately $108 million.

Policy termination – Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. The Company has significant exposures in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy renewal rates at the end of the term for renewable term policies in Canada and Reinsurance. Industry experience has guided the Company's assumptions for these products as its own experience is very limited. A 10% adverse change in the best-estimate policy termination and renewal assumptions would cause a decrease in net earnings of approximately $602 million.

Utilization of elective policy options – There are a wide range of elective options embedded in the policies issued by the Company. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee resets (segregated fund maturity guarantees). The assumed rates of utilization are based on company or industry experience when it exists and, when not, on judgment considering incentives to utilize the option. Generally, whenever it is clearly in the best interests of an informed policyholder to utilize an option, then it is assumed to be elected.

Policyholder dividends and adjustable policy features – Future policyholder dividends and other adjustable policy features are included in the determination of insurance contract liabilities with the assumption that policyholder dividends or adjustable benefits will change in the future in response to the relevant experience. The dividend and policy adjustments are determined consistent with policyholders' reasonable expectations, such expectations being influenced by the participating policyholder dividend policies and/or policyholder communications, marketing material and past practice. It is the Company's expectation that changes will occur in policyholder dividend scales or adjustable benefits for participating or adjustable business respectively, corresponding to changes in the best estimate assumptions, resulting in an immaterial net change in insurance contract liabilities. Where underlying guarantees may limit the ability to pass all of this experience back to the policyholder, the impact of this non-adjustability impacting shareholders' net earnings is reflected in the impacts of changes in best estimate assumptions above.

Income taxes – The Company is subject to income tax laws in various jurisdictions. The Company's operations are complex and related income tax interpretations, regulations and legislation that pertain to its activities are subject to continual change. As multinational life insurance companies, the Company's primary Canadian operating subsidiaries are subject to a regime of specialized rules prescribed under the *Income Tax Act (Canada)* for purposes of determining the amount of the Companies' income that will be subject to tax in Canada.

The Company utilizes tax planning strategies involving multiple jurisdictions to obtain tax efficiencies. The Company continually assesses the uncertainty associated with these strategies and holds an appropriate level of provisions for uncertain income tax positions. Accordingly, the provision for income taxes represents management's interpretation of the relevant income tax laws and its estimate of current and deferred income tax implications of the transactions and events during the period. Deferred income tax assets and liabilities are recorded based on expected future income tax rates and management's assumptions regarding the expected timing of the reversal of temporary differences. The Company has substantial deferred income tax assets. The recognition of deferred income tax assets depends on management's assumption that future earnings will be sufficient to realize the deferred benefit. The amount of the asset recorded is based on management's best estimate of the timing of the reversal of the asset.

The audit and review activities of the Canada Revenue Agency and other jurisdictions' tax authorities affect the ultimate determination of the amounts of income taxes payable or receivable, deferred income tax assets or liabilities and income tax expense. Therefore, there can be no assurance that income taxes will be payable as anticipated and/or the amount and timing of receipt or use of the income tax related assets will be as currently expected. Management's experience indicates the taxation authorities are more aggressively pursuing perceived income tax issues and have increased the resources they put to these efforts.

Employee future benefits – The Company's subsidiaries maintain contributory and non-contributory defined benefit and defined contribution pension plans for certain employees and advisors. The defined benefit pension plans provide pensions based on length of service and final average pay. For most plans, active plan participants share in the cost of benefits through employee contributions in respect of current service. Certain pension payments are indexed on either an ad hoc basis or a guaranteed basis. The determination of the defined benefit obligation reflects pension benefits in accordance with the terms of the plans. The assets supporting the funded pension plans are held in separate trusteed pension funds. The obligations for the wholly unfunded plans are included in other liabilities and are supported by general assets. The significant defined benefit plans of the Company's subsidiaries are closed to new entrants. All new hires are eligible only for defined contribution benefits. The Company's defined benefit plan exposure will continue to be reduced in future years. The defined contribution pension plans provide pension benefits based on accumulated employee and subsidiary Company contributions. The Company's subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. These plans are also closed to new entrants. For further information on the Company's pension plans and other post-employment benefits refer to note 24 in the Company's December 31, 2015 annual consolidated financial statements.

For the defined benefit plans of the Company's subsidiaries, the service costs and net interest costs are recognized in the Consolidated Statements of Earnings. Service costs include current service cost, administration expenses, past service costs and the impact of curtailments and settlements. Re-measurements of the defined benefit liability (asset) due to asset returns less (greater) than interest income, actuarial losses (gains) and changes in the asset ceiling are recognized immediately in the Consolidated Statements of Comprehensive Income.

Accounting for defined benefit pension and other post-employment benefits requires estimates of expected increases in compensation levels, indexation of certain pension payments, trends in health-care costs, the period of time over which benefits will be paid, as well as the appropriate discount rates for past and future service liabilities. These assumptions are determined by management using actuarial methods, and are reviewed and approved annually. Emerging experience that differs from the assumptions will be revealed in future valuations and will affect the future financial position of the plans and net periodic benefit costs.

Actuarial assumptions – employee future benefits

	Defined benefit pension plans		Other post-employment benefits	
At December 31	**2015**	2014	**2015**	2014
Actuarial assumptions used to determine benefit cost				
Discount rate – past service liabilities	**3.5%**	4.7%	**3.9%**	4.8%
Discount rate – future service liabilities	**3.6%**	4.7%	**4.0%**	4.8%
Rate of compensation increase	**3.2%**	3.3%	**–**	–
Future pension increases (1)	**1.1%**	1.8%	**–**	–
Actuarial assumptions used to determine defined benefit obligation				
Discount rate – past service liabilities	**3.8%**	3.5%	**4.1%**	3.9%
Rate of compensation increase	**3.2%**	3.2%	**–**	–
Future pension increases (1)	**1.5%**	1.1%	**–**	–
Medical cost trend rates:				
Initial medical cost trend rate			**5.2%**	5.2%
Ultimate medical cost trend rate			**4.5%**	4.5%
Year ultimate trend rate is reached			**2029**	2029

(1) Represents the weighted average of plans subject to future pension increases.

Actuarial assumptions – The period of time over which benefits are assumed to be paid is based on best estimates of future mortality, including allowances for mortality improvements. This estimate is subject to considerable uncertainty, and judgment is required in establishing this assumption. As mortality assumptions are significant in measuring the defined benefit obligation, the mortality assumptions applied by the Company take into consideration such factors as age, gender and geographic location, in addition to an estimation of future improvements in longevity.

The mortality tables are reviewed at least annually, and assumptions are in accordance with accepted actuarial practices. Emerging plan experience is reviewed and considered in establishing the best estimate for future mortality.

As these assumptions relate to factors that are long-term in nature, they are subject to a degree of uncertainty. Differences between actual experience and the assumptions, as well as changes in the assumptions resulting from changes in future expectations, result in increases or decreases in the pension and post-employment benefits expense and defined benefit obligation in future years. There is no assurance that the plans will be able to earn assumed rates of return, and market driven changes to assumptions could impact future contributions and expenses.

The following table indicates the impact of changes to certain key assumptions related to pension and post-employment benefits.

Impact of a change of 1.0% in actuarial assumptions on defined benefit obligation

	1% increase		1% decrease	
	2015	2014	2015	2014
Defined benefit pension plans:				
Impact of a change to the discount rate	$ **(1,026)**	$ (992)	$ **1,353**	$ 1,309
Impact of a change to the rate of compensation increase	**314**	334	**(272)**	(276)
Impact of a change to the rate of inflation	**551**	593	**(536)**	(474)
Other post-employment benefits:				
Impact of a change to assumed medical cost trend rates	**34**	34	**(28)**	(29)
Impact of a change to the discount rate	**(44)**	(45)	**54**	55

To measure the impact of a change in an assumption, all other assumptions were held constant. It would be expected that there would be interaction between at least some of the assumptions.

Funding – The Company's subsidiaries have both funded and unfunded pension plans as well as other post-employment benefit plans that are unfunded. The Company's subsidiaries' funded pension plans are funded to or above the amounts required by relevant legislation. During the year, the Company's subsidiaries contributed $158 million ($180 million in 2014) to the pension plans and made benefit payments of $19 million ($18 million in 2014) for post-employment benefits. The Company's subsidiaries expect to contribute $179 million to the benefit pension plans and make benefit payments of $19 million for post-employment benefits in 2016.

International Financial Reporting Standards

Due to the evolving nature of International Financial Reporting Standards (IFRS), there are a number of IFRS changes that impacted the Company in 2015, as well as standards that could impact the Company in future reporting periods. The Company actively monitors future IFRS changes proposed by the International Accounting Standards Board (IASB) to assess if the changes to the standards may have an impact on the Company's results or operations.

The Company adopted the narrow scope amendments to IFRS for *Annual Improvements 2010 – 2012 Cycle, Annual Improvements 2011 – 2013 Cycle* and IAS 19, *Employee Benefits* effective January 1, 2015. The adoption of these narrow scope amendments did not have a significant impact on the Company's financial statements.

IFRS that have changed or may change subsequent to 2015 and could impact the Company in future reporting periods, are set out in the following table:

New Standard	**Summary of Future Changes**
IFRS 4 – ***Insurance Contracts***	The IASB issued a revised IFRS 4, *Insurance Contracts* exposure draft proposing changes to the accounting standard for insurance contracts in June 2013. The IASB continues to deliberate the proposals in this exposure draft. The proposed standard differs significantly from the Company's current accounting and actuarial practices under the Canadian Asset Liability Method (CALM) and is expected to produce more volatile financial results. The Company is actively monitoring developments in this area. The Company will continue to measure insurance contract liabilities under current accounting and actuarial policies, including CALM, until a new IFRS for insurance contract measurement is issued and effective.
IFRS 9 – ***Financial Instruments***	In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments* to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The standard provides changes to financial instruments accounting for the following: • classification and measurement of financial instruments based on a business model approach for managing financial assets and the contractual cash flow characteristics of the financial asset; • impairment based on an expected loss model; and • hedge accounting that incorporates the risk management practices of an entity. On December 9, 2015, the IASB published an exposure draft with proposed amendments to IFRS 4, *Insurance Contracts* (IFRS 4) to alleviate the temporary consequences of the different effective dates with IFRS 9, *Financial Instruments* (IFRS 9). Companies whose business model is to predominantly issue insurance contracts are allowed the option to defer the effective date of IFRS 9 until the earliest of the mandatory effective date of IFRS 4 or January 1, 2021. The Company is evaluating the impact of the adoption of this standard as well as the applicability of the exposure draft relating to the deferral.
IFRS 15 – ***Revenue from Contracts with Customers***	In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers,* which provides a single revenue recognition standard to align the financial reporting of revenue from contracts with customers and related costs. The revenue arising from insurance contracts, leases and financial instruments is not required to apply the revenue recognition requirements in IFRS 15. A company would recognize revenue when it transfers goods or services to a customer in the amount of consideration the company expects to receive from the customer. In September 2015, the IASB issued an amendment to IFRS 15 providing a deferral of one year of the effective date of the standard, from January 1, 2017 to January 1, 2018. The Company is evaluating the impact of the adoption of this standard.
IFRS 16 – ***Leases***	In January 2016, the IASB issued IFRS 16, *Leases,* which introduces new guidance for identifying leases as well as a new right-of-use accounting model for lessees, replacing the operating and finance lease accounting models that currently exist. The new accounting model will generally require all lessees to recognize lease assets and liabilities on the balance sheet, initially measured at the present value of unavoidable lease payments for all leases with a maximum possible term of more than 12 months. In contrast to the significant changes for lessees, the new standard will retain many key aspects of the current lessor accounting model. The standard is effective January 1, 2019. The Company is evaluating the impact of the adoption of this standard.

New Standard	**Summary of Changes**
Annual Improvements 2012 – 2014 Cycle	In September 2014, the IASB issued *Annual Improvements 2012 – 2014 Cycle* as part of its ongoing process to efficiently deal with non-urgent narrow scope amendments to IFRS. Five amendments were included in this issue relating to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7, *Financial Instruments: Disclosures*, IFRS 1, *First-time Adoption of International Financial Reporting Standards,* IAS 19, *Employee Benefits* and IAS 34 *Interim Financial Reporting.* The amendments are effective January 1, 2016. Adoption of these amendments is not expected to have a significant impact on the Company's consolidated financial statements.
IAS 16 – ***Property, Plant and Equipment*** **and IAS 38 –** ***Intangible Assets***	In May 2014, the IASB issued amendments to IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangible Assets* that the use of revenue-based methods to calculate the depreciation of property, plant and equipment and intangible assets is not appropriate. The amendments are effective January 1, 2016. Adoption of these amendments is not expected to have a significant impact on the Company's consolidated financial statements.
IFRS 10 – ***Consolidated Financial Statements*** **and IAS 28 –** ***Investments in Associates and Joint Ventures***	In September 2014, the IASB issued amendments to IFRS 10, *Consolidated Financial Statements* and IAS 28, *Investments in Associates and Joint Ventures* to clarify that any gain or loss recognized in a transaction involving an associate or joint venture depends on whether the assets sold or contributed constitute a business as defined under IFRS 3, *Business Combinations*. In December 2014, the IASB issued additional amendments to IFRS 10 and IAS 28 clarifying the accounting requirements for investment entities. The amendments are effective January 1, 2016. Adoption of these amendments is not expected to have a significant impact on the Company's consolidated financial statements.
IFRS 11 – ***Joint Arrangements***	In May 2014, the IASB issued amendments to IFRS 11, *Joint Arrangements* on the accounting for acquisitions of an interest in a joint operation when the operations constitute a business as defined under IFRS 3, *Business Combinations.* The amendments are effective January 1, 2016. Adoption of these amendments is not expected to have a significant impact on the Company's consolidated financial statements.
IAS 1 – ***Presentation of Financial Statements***	In December 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* to add clarity and flexibility to financial statement presentations, ensuring entities use judgment in applying materiality, and presentation of financial statements and structure of the notes. The amendments are effective January 1, 2016. Adoption of these amendments is not expected to have a significant impact on the Company's consolidated financial statements.

SEGMENTED OPERATING RESULTS

The consolidated operating results of Lifeco, including the comparative figures, are presented on an IFRS basis after capital allocation. Consolidated operating results for Lifeco comprise the net earnings of Great-West Life and its operating subsidiaries, London Life and Canada Life; Great-West Financial and Putnam; together with Lifeco's corporate results.

For reporting purposes, the consolidated operating results are grouped into four reportable segments – Canada, United States, Europe and Lifeco Corporate – reflecting geographic lines as well as the management and corporate structure of the companies.

CANADA

The Canada segment of Lifeco includes the operating results of the Canadian businesses operated by Great-West Life, London Life and Canada Life, together with an allocation of a portion of Lifeco's corporate results. There are three primary business units included in this segment. Through the Individual Insurance business unit, the Company provides life, disability and critical illness insurance products to individual clients. Through the Wealth Management business unit, the Company provides accumulation products and annuity products for both group and individual clients in Canada. Through the Group Insurance business unit, the Company provides life, accidental death and dismemberment, critical illness, health and dental protection, creditor and direct marketing insurance as well as specialty products to group clients in Canada.

BUSINESS PROFILE

INDIVIDUAL INSURANCE

In Canada, Individual Insurance consists of Individual Life Insurance and Living Benefits. Products and services are distributed through diverse, complementary channels: financial security advisors and brokers associated with Great-West Life; financial security advisors associated with London Life's Freedom 55 Financial™ division and the Wealth & Estate Planning Group; and the distribution channels Canada Life supports, including independent advisors associated with managing general agencies (MGAs), as well as national accounts, including Investors Group.

The various distribution channels are accessed through distinct product labels offered by Great-West Life, London Life and Canada Life. Unique products and services are offered to meet the needs of each distribution channel to allow the Company to maximize opportunities while minimizing channel conflict.

WEALTH MANAGEMENT

The Wealth Management business unit consists of Individual Retirement & Investment Services (IRIS) and Group Retirement Services (GRS) product lines. The Company utilizes diverse, complementary distribution channels and is a leader in Canada for all Wealth Management product lines. Products are distributed through the same channels as described above for Individual Insurance as well as independent brokers, consultants and direct business for the Company's GRS business.

The individual lines of business access the various distribution channels through distinct product labels offered by Great-West Life, London Life, Canada Life and Quadrus Investment Services Ltd. (Quadrus). Unique products and services are offered to meet the needs of each distribution channel and customer to allow the Company to maximize opportunities while minimizing channel conflict.

GROUP INSURANCE

In Canada, the Company offers effective benefit solutions for small, medium and large plan sponsors. Through the Company's extensive network of Group sales offices and Sales and Marketing Centres located across the country, it distributes its products through brokers, consultants and financial security advisors. The Company offers a wide range of Group products and services including life, accidental death and dismemberment, critical illness, disability, health and dental protection as well as specialty products.

The Company's creditor and direct marketing business, conducted through its Canada Life subsidiary, offers effective benefit solutions for large financial institutions, credit card companies, alumni and association groups. Canada Life is a leader in the creditor insurance business in Canada.

MARKET OVERVIEW

PRODUCTS AND SERVICES

INDIVIDUAL INSURANCE

The Company provides an array of individual insurance products that are distributed through multiple sales channels. Products are marketed under the Great-West Life, London Life and Canada Life brands.

MARKET POSITION

- Manages largest portfolio of life insurance in Canada as measured by premium(1)
- Pre-eminent provider of individual disability and critical illness insurance with 28% market share of in-force premium(1)

PRODUCTS AND SERVICES

Individual Life Insurance
- Term Life
- Universal Life
- Participating Life

Living Benefits
- Disability
- Critical Illness

DISTRIBUTION

Associated with:

Great-West Life Distribution
- 2,896 Great-West Life financial security advisors
- 2,140 advisors associated with a number of intercorporate arrangements
- 6,202 independent brokers

London Life Distribution
- 3,700 Freedom 55 Financial and Wealth & Estate Planning Group financial security advisors

Canada Life Distribution
- 7,648 independent brokers associated with 35 MGAs
- 1,685 advisors associated with 14 national accounts
- 3,244 Investors Group consultants who actively sell Canada Life products
- 159 direct brokers and producer groups

(1) As at September 30, 2015

WEALTH MANAGEMENT

The Company provides an array of savings and income products that are distributed through multiple sales channels. Products are marketed under the Great-West Life, London Life, Canada Life and Quadrus brands.

The Company offers a wide range of segregated funds through its multiple distribution channels including 97 London Life segregated funds to individual Freedom 55 Financial™ clients, 87 Canada Life segregated funds to individual Canada Life clients, 91 Great-West Life segregated funds to individual Great-West Life clients and over 200 segregated funds to Envision Group Capital Accumulation Fund clients.

Quadrus offers 51 mutual funds under the Quadrus Group of Funds™ brand and over 3,500 third-party mutual funds. Mackenzie Financial Corporation, a member of the Power Financial Corporation group of companies, administers the Quadrus Group of Funds.

MARKET POSITION

- 27% market share of individual segregated funds[1]
- 17% market share of group capital accumulation plans[2]

PRODUCTS AND SERVICES

Group Retirement Services

- Group Capital Accumulation Plans
- Non-registered savings programs
- Deferred profit sharing plans
- Defined contribution pension plans
- Group RRSPs & TFSAs

Invested in:

  - Segregated funds
  - Guaranteed investment options
  - Single company stock
- Retirement Income Plans
  - Payout annuities
  - Deferred annuities
  - Retirement income funds
  - Life income funds
- Investment management services only plans

Invested in:

  - Segregated funds
  - Guaranteed investment options
  - Securities

Individual Retirement & Investment Services

- Savings plans
- RRSPs
- Non-registered savings programs
- TFSAs

Invested in:

  - Segregated funds
  - Mutual funds
  - Guaranteed investment options
- Retirement Income Plans
  - Segregated funds with GMWB rider
  - Retirement income funds
  - Life income funds
  - Payout annuities
  - Deferred annuities
- Residential mortgages
- Banking products

DISTRIBUTION

Associated with:

Great-West Life Distribution

- 2,896 Great-West Life financial security advisors
- 2,140 advisors associated with a number of intercorporate arrangements
- 6,202 independent brokers

London Life Distribution

- 3,700 Freedom 55 Financial and Wealth & Estate Planning Group financial security advisors

Canada Life Distribution

- 7,648 independent brokers associated with 35 MGAs
- 1,685 advisors associated with 14 national accounts
- 3,244 Investors Group consultants who actively sell Canada Life products
- 159 direct brokers and producer groups

Quadrus Investment Services Ltd. (also included in Great-West Life and London Life advisor counts):

- 4,085 investment representatives

Group Retirement Services

- Benefits Consultants, Brokers and Affiliated advisors (as above)

(1) As at September 30, 2015

(2) As at June 30, 2015

GROUP INSURANCE

The Company provides an array of life, health and creditor insurance products that are distributed primarily through Group sales offices across the country.

MARKET POSITION

- Employee benefits to over 30,000 plan sponsors[1]
- 21% market share for employee/employer plans[2]
- Leading market share with 39% for creditor products[2] with coverage provided to over 7.4 million plan members[1]
- 5% market share[2] for direct marketing products with coverage provided to over 0.8 million plan members[1]

PRODUCTS AND SERVICES

Life and Health

- Life
- Disability
- Critical Illness
- Accidental death & dismemberment
- Dental
- Expatriate coverage
- Extended health care

Creditor

- Creditor life
- Creditor disability
- Creditor job loss
- Creditor critical illness
- Creditor Credit Card Outstanding Balance

DISTRIBUTION

- 120 account managers and sales staff located in 16 Group Offices
- 105 Regional Employee Benefits Managers and Selectpac Sales Specialists located in 28 Sales and Marketing Centres

(1) As at December 31, 2015

(2) As at December 31, 2014

Competitive Conditions

Individual Insurance

The individual insurance marketplace is highly competitive. Competition focuses on service, technology, product features, price and financial strength, as indicated by ratings issued by nationally recognized agencies.

Wealth Management

The wealth management marketplace is very competitive. The Company's competitors include mutual fund companies, insurance companies, banks and investment advisors, as well as other service and professional organizations. Competition focuses on service, variety of investment options, investment performance, product features, price and financial strength, as indicated by ratings issued by nationally recognized agencies.

Group Insurance

The group insurance market in Canada is highly competitive. There are three large group insurance carriers with significant market positions, as well as a number of smaller companies operating nationally, and several regional and niche competitors. The Company has significant market share of approximately 21%. This strong market share position, supported by extensive distribution and access to a wide range of products and services, is a distinct advantage for competing successfully in the Canadian group insurance market.

Selected consolidated financial information – Canada

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Premiums and deposits	**$ 6,110**	$ 5,672	$ 5,874	**$ 23,564**	$ 24,140
Sales	**3,492**	2,944	3,311	**12,635**	12,164
Fee and other income	**369**	366	349	**1,459**	1,409
Net earnings – common shareholders	**262**	326	300	**1,195**	1,228
Total assets	**$ 145,895**	$ 143,933	$ 141,490		
Proprietary mutual funds and institutional net assets	**5,039**	4,896	4,718		
Total assets under management	**150,934**	148,829	146,208		
Other assets under administration	**15,390**	14,955	14,793		
Total assets under administration	**$ 166,324**	$ 163,784	$ 161,001		

Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Individual Insurance	**$ 51**	$ 91	$ 120	**$ 307**	$ 395
Wealth Management	**119**	116	69	**479**	383
Group Insurance	**74**	153	96	**432**	422
Corporate	**18**	(34)	15	**(23)**	28
Net earnings	**$ 262**	$ 326	$ 300	**$ 1,195**	$ 1,228

2015 Developments

- Premiums and deposits for the twelve months ended December 31, 2015 were $23.6 billion compared to $24.1 billion for the same period in 2014. Premiums and deposits in the fourth quarter of 2015 were $6.1 billion, a 4% increase from the same quarter last year.
- Sales for the twelve months ended December 31, 2015 were $12.6 billion compared to $12.2 billion for the same period in 2014. Sales in the fourth quarter of 2015 were $3.5 billion, a 5% increase from the same quarter in 2014, which reflects strong sales across all lines of business.
- Fee and other income for the twelve months ended December 31, 2015 was $1,459 million compared to $1,409 million for the same period in 2014. Fee and other income was $369 million for the fourth quarter of 2015, an increase of $20 million compared to the same quarter in 2014, primarily due to growth in assets under management.
- Net earnings for the twelve months ended December 31, 2015 were $1,195 million compared to $1,228 million for the same period in 2014. Net earnings for the fourth quarter of 2015 were $262 million, a decrease of $38 million compared to the same quarter last year. The fourth quarter of 2014 included changes to actuarial standards related to economic reinvestment assumptions that positively impacted earnings in the fourth quarter of 2014 and did not recur in 2015.
- During the fourth quarter of 2015, Individual Insurance announced price reductions on term 10 and term 20 products as well as product enhancements and price refinements for critical illness and disability income products.

- The Company continued to invest in technology to enhance the customer service experience.
  - Great-West Life streamlined payments for health and dental providers, replacing individual paper cheques with direct deposits or bundled cheques. These changes are resulting in significant expense savings and reductions in use of paper. The Company expects continued savings as more providers choose direct deposit.
  - During the year, Group Retirement Services introduced Enrollment Express, a new online enrollment service.
- The Company introduced new health and wellness tools as well as enhancements to the plan member experience, including:
  - Launch of a pilot for an innovative health and wellness platform to help improve health outcomes for plan members and reduce associated health plan costs for plan sponsors. The platform delivers personalized recommendations on healthy actions for plan members and access to specialty health programs, such as diabetes management for eligible participants, along with built-in incentives.
  - Enhanced scope and capabilities for the Personal Health Risk Assessment tool, available through the Company's online service site, GroupNet for Plan Members. Plan members can create their own health profile, build an action plan to support their health and wellness needs and track their progress along the way.
  - Updates to GroupNet Mobile app, including a Drug Coverage Search Tool plan members can use to find out if a drug is covered and at what level.
  - New videos and promotions through social media to inform, educate and encourage smart choices, including educating plan members on their benefits, and the differences between brand and generic drugs.
- The Great-West Life Centre for Mental Health in the Workplace continued to provide free tools and resources to help employers enhance workplace mental health:
  - Supported development and launch of the Canadian Mental Health Association's Certified Psychological Health and Safety Advisor Training program. The program certifies individuals and consultants to help public and private sector organizations implement the National Standard of Canada for Psychological Health and Safety in the Workplace.
  - Re-launched an expanded version of its free Supporting Employee Success (SES) resource. SES can help employees who are managing mental health issues successfully remain in, or return to, the workplace, including helping managers better handle accommodations and healthcare providers better understand workplace demands.
- In 2015, Wealth Management launched the HelloLife™ retirement program. This program allows the Company's financial security advisors to help individuals create a retirement program tailored to their specific needs.
- In 2015, the Company undertook an initiative to ensure eligible high-net-worth clients were receiving the benefit of preferred pricing.

Business Units – Canada

Individual Insurance

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Premiums and deposits	**$ 1,304**	$ 1,220	$ 1,202	**$ 4,894**	$ 4,518
Sales	**137**	142	117	**530**	494
Net earnings	**51**	91	120	**307**	395

Premiums and deposits

Individual Insurance premiums for the fourth quarter of 2015 increased by $102 million to $1,304 million compared to the same quarter last year. Individual Life premiums for the quarter increased by $102 million to $1,221 million compared to the same quarter last year, primarily due to a 12% increase in participating life premiums. Living Benefits premiums of $83 million were comparable to same quarter last year.

For the twelve months ended December 31, 2015, Individual Insurance premiums increased by $376 million to $4,894 million compared to the same period last year. Individual Life premiums increased by $373 million to $4,563 million compared to the same period last year, primarily due to an 11% increase in participating life premiums. Living Benefits premiums of $331 million were comparable to the same period last year.

Individual Insurance premiums for the fourth quarter of 2015 increased by $84 million compared to the previous quarter, primarily due to a 9% increase in participating life premiums.

Sales

Individual Insurance sales for the fourth quarter of 2015 increased by $20 million to $137 million compared to the same quarter last year. Participating life sales remained strong, up $16 million or 19%, while Universal Life and Term Life insurance product sales were comparable to the same quarter last year.

For the twelve months ended December 31, 2015, Individual Insurance sales increased by $36 million to $530 million compared to the same period last year. Participating life sales increased $50 million or 15%, while Universal Life and Term Life insurance product sales decreased $16 million or 13%, primarily due to application processing delays earlier in the year.

Individual Insurance sales for the fourth quarter of 2015 decreased by $5 million compared to the previous quarter, primarily due to a 5% decrease in participating life sales.

Net earnings

Net earnings for the fourth quarter of 2015 decreased by $69 million to $51 million compared to the same quarter last year. The decrease was primarily due to lower insurance contract liability basis changes and less favourable mortality results, partially offset by higher contributions from investment experience and favourable policyholder behaviour experience. In 2014, insurance contract liability basis changes mostly reflected the impact of changes to actuarial standards related to economic reinvestment assumptions.

For the twelve months ended December 31, 2015, net earnings decreased by $88 million to $307 million compared to the same period last year. The decrease was primarily due to lower insurance contract liability basis changes, discussed for the in-quarter results, and higher new business strain, partially offset by higher contributions from investment experience and favourable policyholder behaviour experience. In addition, net earnings in 2015 were positively impacted by changes to certain income tax estimates.

Net earnings for the fourth quarter of 2015 decreased by $40 million compared to the previous quarter. The decrease was primarily due to lower insurance contract liability basis changes. In addition, net earnings in the third quarter of 2015 were positively impacted by changes to certain income tax estimates, which did not recur in the fourth quarter of 2015.

For the fourth quarter of 2015, the net earnings attributable to the participating account increased by $16 million to $40 million compared to the same quarter last year, primarily due to higher contributions from insurance contract liability basis changes and lower new business strain.

For the twelve months ended December 31, 2015, the net earnings attributable to the participating account increased by $23 million to $111 million compared to the same period last year. The increase was primarily due to higher contributions from insurance contract liability basis changes and investment experience on participating surplus assets, as well as the positive impacts of changes to certain income tax estimates.

The net earnings attributable to the participating account for the fourth quarter of 2015 increased by $18 million compared to the previous quarter, primarily due to higher contributions from insurance contract liability basis changes. In addition, net earnings in the third quarter of 2015 were positively impacted by changes to certain income tax estimates, which did not recur in the fourth quarter of 2015.

Outlook – Individual Insurance

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

The Individual Insurance division delivered strong results in 2015. The Company's reputation for strength and stability, combined with prudent business practices as well as the depth and breadth of its distribution channels positions the Company well for 2016 and beyond. The Company has reviewed its strategies with the goal of achieving superior organic growth from profitable products.

In 2016, the Company will continue to provide advisors with strategies and tools for helping clients focus on achieving long-term financial security regardless of market fluctuations. This approach is beneficial to strong client retention as well as helping advisors attract new clients to the Company. A key distribution strategy will be to maximize the use of common tools, processes and support, while tailoring support to specific segments of advisors where appropriate. The lower service levels associated with the new business process implemented in 2014 were mostly addressed during 2015 and the Company expects continued improvements during 2016.

The Company's broad spectrum of distribution associates, including exclusive and independent channels, and multiple brands provides important strategic advantages within the Canadian market. The Company will continue to competitively develop, price and market its comprehensive range of Individual Insurance products while maintaining its focus on sales and service support for large cases in all channels.

The Company's diversified offering of Individual Insurance products including participating whole life, term, universal life, disability, and critical illness insurance, combined with a commitment to new business service will position it to continue to achieve market leading sales in 2016. The Company will continue to enhance its suite of product solutions and services and will continue to focus on growing its business organically by constantly improving service to clients.

Operational expense management continues to be critically important to delivering strong financial results. This will be achieved through disciplined expense controls and effective development and implementation of strategic investments. Management has identified a number of areas of focus for these investments to facilitate the objective of organic growth.

Wealth Management

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Premiums and deposits	**$ 2,804**	$ 2,504	$ 2,741	**$ 10,832**	$ 11,914
Sales	**3,220**	2,551	3,073	**11,472**	11,087
Fee and other income	**316**	310	297	**1,247**	1,200
Net earnings	**119**	116	69	**479**	383

Premiums and deposits

Premiums and deposits for the fourth quarter of 2015 increased by $63 million to $2,804 million compared to the same quarter last year. The increase was primarily due to higher premiums and deposits related to the Company's in-force group capital accumulation plan (GCAP) products and single premium group annuities (SPGAs).

Excluding the impact of the conversion of certain pension plan assets into segregated fund products of $1,066 million in the first quarter of 2014, premiums and deposits for the twelve months ended December 31, 2015 of $10,832 million were comparable to the same period last year. Higher premiums and deposits related to individual investment funds were offset by lower premiums and deposits related to GCAP products, group investment only (IO) products and individual payout annuities.

Premiums and deposits for the fourth quarter of 2015 increased by $300 million compared to the previous quarter. The increase was primarily driven by higher premiums and deposits related to the Company's in-force GCAP products, SPGAs and individual investment funds.

Sales

Sales for the fourth quarter of 2015 increased by $147 million to $3,220 million compared to the same quarter last year. The increase was primarily due to higher sales of individual investment funds, driven by growth in high-net-worth product sales.

For the twelve months ended December 31, 2015, sales increased by $385 million to $11,472 million compared to the same period last year, primarily due to higher sales of individual investment funds, partially offset by lower sales of group IO products, GCAP products and individual payout annuities.

Sales for the fourth quarter of 2015 increased by $669 million compared to the previous quarter. The increase was primarily driven by higher sales of individual investment funds, GCAP products and SPGAs.

For the GCAP and proprietary individual investment fund business, net cash inflows for the fourth quarter of 2015 were $358 million compared to $264 million in the same quarter last year and $21 million in the previous quarter. For the twelve months ended December 31, 2015, net cash inflows were $788 million compared to $2,152 million for the same period last year, which included $1,066 million related to the conversion of certain pension plan assets into segregated fund products. Excluding this conversion, net cash inflows decreased by $298 million primarily due to higher withdrawals and slightly lower premiums and deposits on the GCAP business. Withdrawal rates are consistent with the prior year, but withdrawals have increased as a result of higher asset levels.

Assets under administration

	December 31	
	2015	2014
Assets under management		
Individual Retirement & Investment Services		
Risk-based products	**$ 5,739**	$ 6,181
Segregated funds	**29,836**	29,250
Proprietary mutual funds	**4,917**	4,620
Group Retirement Services		
Risk-based products	**7,161**	7,006
Segregated funds	**40,433**	39,122
Institutional assets	**122**	98
Total assets under management	**$88,208**	$ 86,277
Other assets under administration (1)		
Individual Retirement & Investment Services	**6,620**	6,050
Group Retirement Services	**526**	515
Total other assets under administration	**$ 7,146**	$ 6,565
Total assets under administration	**$95,354**	$ 92,842
Summary by business/product		
Individual Retirement & Investment Services	**47,112**	46,101
Group Retirement Services	**48,242**	46,741
Total assets under administration	**$95,354**	$ 92,842

(1) Includes mutual funds distributed by Quadrus Investment Services Ltd., stock purchase plans administered by London Life and portfolio assets managed by GLC Asset Management Group.

Fee and other income

Fee and other income for the fourth quarter of 2015 increased by $19 million to $316 million compared to the same quarter last year, primarily due to growth in average assets under administration driven by positive fund performance and net cash flows, partially offset by lower margins. The growth in assets under administration was driven by positive fixed-income and U.S. equity fund returns due to lower interest rates and the strengthening of the U.S. dollar, respectively. This was partially offset by negative returns on Canadian equity funds due to lower average equity market levels. Lower margins were primarily driven by the development of the market for high-net-worth segregated fund and mutual fund products. In addition, fee income for the fourth quarter of 2014 was negatively impacted by a fee income provision.

Fee and other income for the twelve months ended December 31, 2015 increased by $47 million to $1,247 million compared to the same period last year. The increase was primarily due to the same reasons discussed for the in-quarter results.

Fee and other income for the fourth quarter of 2015 increased by $6 million compared to the previous quarter, primarily due to growth in other income related to distribution arrangements.

Net earnings

Net earnings for the fourth quarter of 2015 increased by $50 million to $119 million compared to the same quarter last year. The increase was primarily due to higher contributions from insurance contract liability basis changes and higher net fee income, partially offset by increased operating expenses. In 2014, insurance contract liability basis changes mostly reflected changes to actuarial standards related to economic reinvestment assumptions that negatively impacted earnings.

For the twelve months ended December 31, 2015, net earnings increased by $96 million to $479 million compared to the same period last year. The increase was primarily due to higher contributions from insurance contract liability basis changes, as discussed for the in-quarter results, and investment experience, higher net fee income and more favourable longevity experience, partially offset by increased operating expenses.

Net earnings for the fourth quarter of 2015 increased by $3 million compared to the previous quarter, primarily due to higher contributions from insurance contract liability basis changes and investment experience, partially offset by increased operating expenses.

Outlook – Wealth Management

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

The Company's reputation for strength and stability, combined with prudent business practices as well as the depth and breadth of Wealth Management's distribution channels, positions the Company well for 2016 and beyond. Wealth Management's strategy and organization are focused on achieving growth from profitable products.

In 2016, the Company will continue to provide advisors with strategies and tools for helping clients focus on achieving long-term investment success. This approach benefits the Company by improving existing asset retention and by helping advisors attract new client deposits to the Company. A key distribution strategy is to maximize use of common tools, processes and support, while tailoring support to specific segments of advisors where appropriate.

Wealth Management's multiple brands and broad spectrum of distribution associates, including exclusive and independent channels, provide important strategic advantages within the Canadian market. The Company will continue to develop, price and market its comprehensive and competitive range of wealth management products to both retail and group clients. The Company continues to observe fee income compression due to the competitive market; however, the Company targets to offset these impacts by growing assets under management and continuing to improve the Company's operational efficiency.

In 2015, the Company launched the HelloLife™ retirement program. This program allows the Company's financial security advisors to help individuals create a retirement program tailored to their specific needs. The HelloLife™ retirement program is expected to generate higher net cash flow and associated fee income from segregated funds as well as higher sales of individual payout annuities in future years. The Company will continue to focus on serving the needs of the aging demographic and enhancing the client's experience through various initiatives targeted at both individual and group customers.

The Company will focus on strategic investment in the business, operational efficiency improvements and disciplined expense management to deliver strong financial results.

Group Insurance

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Premiums and deposits	**$ 2,002**	$ 1,948	$ 1,931	**$ 7,838**	$ 7,708
Sales	**135**	251	121	**633**	583
Fee and other income	**41**	38	40	**157**	153
Net earnings	**74**	153	96	**432**	422

Premiums and deposits

Premiums and deposits for the fourth quarter of 2015 increased by $71 million to $2,002 million compared to the same quarter last year, primarily due to an increase in mid-size and large case market premiums and deposits.

For the twelve months ended December 31, 2015, premiums and deposits increased by $130 million to $7,838 million compared to the same period last year, for the same reasons discussed for the in-quarter results.

Premiums and deposits for the fourth quarter of 2015 increased by $54 million compared to the previous quarter, primarily due to an increase in large case market premiums and deposits.

Sales

Sales for the fourth quarter of 2015 increased by $14 million to $135 million compared to the same quarter last year. The increase was primarily due to higher sales in the mid-size case and large case markets, partially offset by lower creditor sales. Sales of creditor products can be highly variable from quarter to quarter.

For the twelve months ended December 31, 2015, sales increased by $50 million to $633 million compared to the same period last year. The increase was primarily due to higher sales across all market segments.

Sales for the fourth quarter of 2015 decreased by $116 million compared to the previous quarter, primarily due to lower sales in the large case market, which included a large government plan sale in the previous quarter, and lower creditor sales, partially offset by higher sales in the mid-size case market.

Fee and other income

Fee and other income of $41 million for the fourth quarter of 2015 was both comparable to the same quarter last year and the previous quarter.

Fee and other income of $157 million for the twelve months ended December 31, 2015 was comparable to the same period last year.

Net earnings

Net earnings for the fourth quarter of 2015 decreased by $22 million to $74 million compared to the same quarter last year. The decrease was primarily due to less favourable morbidity experience, particularly related to long-term disability experience, and higher operating expenses primarily supporting business growth.

For the twelve months ended December 31, 2015, net earnings increased by $10 million to $432 million compared to the same period last year. The increase was primarily due to the positive impact of changes to certain income tax estimates in the third quarter of 2015 and higher contributions from investment experience, partially offset by less favourable morbidity experience and higher operating expenses.

Net earnings for the fourth quarter of 2015 decreased by $79 million compared to the previous quarter, primarily due to less favourable morbidity experience, lower contributions from investment experience and higher operating expenses, partially offset by higher contributions from insurance contract liability basis changes. In addition, net earnings for the third quarter of 2015 were positively impacted by changes to certain income tax estimates, which did not recur in the fourth quarter of 2015.

Outlook – Group Insurance

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

During 2015, the Company maintained its strong competitive position in the Canadian group insurance market with leading or strong market shares in all case size, regional and benefit market segments. The Company believes that this market share position, together with its expense management capabilities and distribution capacity, will facilitate continued growth in revenue premium. In particular, through effective investment in digital technologies and innovative benefit solutions, the Company expects to continue to enhance its competitive position in the marketplace.

Canada Corporate

Canada Corporate consists of items not associated directly with or allocated to the Canadian business units.

For the fourth quarter of 2015, Canada Corporate had net earnings of $18 million compared to $15 million for the same quarter last year. The change in net earnings was primarily due to higher net investment income and lower operating expenses, partially offset by increased allocated financing charges.

For the twelve months ended December 31, 2015, Canada Corporate had a net loss of $23 million compared to net earnings of $28 million for the same period last year. The change in net earnings was primarily due to changes to certain income tax estimates, which did not occur in 2014, and increased allocated financing charges, partially offset by higher net investment income and lower operating expenses.

For the fourth quarter of 2015, Canada Corporate had net earnings of $18 million compared to a net loss of $34 million in the previous quarter. The change in net earnings was primarily due to lower income taxes and higher net investment income. Net earnings for the third quarter of 2015 were negatively impacted by changes to certain income tax estimates, which did not recur in the fourth quarter of 2015.

UNITED STATES

The United States operating results for Lifeco include the results of Great-West Financial, Putnam and the results of the insurance businesses in the United States branches of Great-West Life and Canada Life, together with an allocation of a portion of Lifeco's corporate results.

Through its Financial Services business unit, and specifically the Empower Retirement brand, the Company provides an array of financial security products, including employer-sponsored defined contribution plans, administrative and recordkeeping services, individual retirement accounts, fund management as well as investment and advisory services. The Company also provides life insurance, annuity and executive benefits products through its Individual Markets operations.

Through Putnam, the Company's Asset Management business unit provides investment management, certain administrative functions, distribution and related services, through a broad range of investment products.

TRANSLATION OF FOREIGN CURRENCY

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period.

Currency translation impact is a non-IFRS financial measure that highlights the impact of changes in currency translation rates on IFRS results. This measure provides useful information as it facilitates comparability of results between periods. Refer to the Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

BUSINESS PROFILE

FINANCIAL SERVICES

Great-West Financial provides an array of financial security products, including employer-sponsored defined contribution plans, individual retirement accounts, life insurance, annuity products and executive benefits products. Under the Empower Retirement brand name, Great-West Financial offers employer-sponsored defined contribution plans, individual retirement accounts, enrollment services, communication materials, investment options and education services as well as fund management, investment and advisory services. Through its FASCore subsidiary, the Company offers private label recordkeeping and administrative services for other providers of defined contribution plans. Through relationships with government plan sponsors, the Company is the largest provider of services to state defined contribution plans, with 21 recordkeeping and two investment only state clients as well as the Government of Guam.

ASSET MANAGEMENT

Putnam provides investment management, certain administrative functions and distribution services. Putnam offers a broad range of investment products, including equity, fixed-income, absolute return and alternative strategies, through Putnam Funds, Putnam World Trust Funds and institutional portfolios. Revenue is derived from the value and composition of assets under management, performance fees as well as service and distribution fees. Accordingly, fluctuations in the financial markets and changes in the composition of assets or accounts affect revenues and results of operations.

MARKET OVERVIEW

PRODUCTS AND SERVICES

The Company provides a focused product offering that is distributed through a variety of channels.

FINANCIAL SERVICES

MARKET POSITION

- Second largest defined contribution recordkeeper in the country[4], providing services for over 7.5 million participant accounts and 35,495 plans[1]
- 23% market share in state and local government deferred compensation plans, based on number of participant accounts[2]
- 20% market share of individual life insurance sold through the retail bank channel[3]
- 7% market share of executive benefits markets life insurance purchased by financial institutions[3]
- Great-West Lifetime Funds are the 13th largest target date fund offering in the United States[1]

PRODUCTS AND SERVICES

- Employer-sponsored defined contribution plans, enrollment services, communication materials, investment options and education services
- Administrative and recordkeeping services for financial institutions and employer-sponsored defined contribution plans and associated defined benefit plans
- Fund management, investment and advisory services
- Individual retirement accounts (IRAs), individual term and single premium life insurance and individual annuity products
- Executive benefits markets life insurance products

DISTRIBUTION

- Retirement services products distributed to plan sponsors through brokers, consultants, advisors, third-party administrators and banks
- FASCore recordkeeping and administrative services distributed through institutional clients
- Individual life and annuity products distributed through wholesale and retail sales force, banks, broker dealers and investment advisors
- IRAs available to individuals through the Retirement Solutions Group
- Executive benefits markets life insurance products distributed through wholesalers and specialized consultants

(1) As at December 31, 2015
(2) As at September 30, 2015
(3) Market share based on annualized Q1 – Q3 2015 sales data
(4) As at June 30, 2015

ASSET MANAGEMENT

MARKET POSITION

- A global asset manager with assets under management of US$148 billion[1]
- Global distribution includes sales teams that are focused on major institutional markets in the U.S., Europe, the Middle East, Asia and Australia and through a strategic distribution relationship in Japan

PRODUCTS AND SERVICES

Investment Management Products & Services

- Individual retail investors – a family of open-end and closed-end mutual funds, college savings plans and variable annuity products
- Institutional investors – defined benefit and defined contribution investment only plans sponsored by corporations, state, municipal and other governmental authorities, university endowment funds, charitable foundations, and collective investment vehicles (both U.S. and non-U.S.)
- Investment services for defined contribution investment only plans
- Alternative investment products across the fixed-income, quantitative and equity groups

Administrative Services

- Transfer agency, underwriting, distribution, shareholder services, trustee and other fiduciary services

DISTRIBUTION

Individual Retail Investors

- A broad network of distribution relationships with unaffiliated broker dealers, financial planners, registered investment advisors and other financial institutions that distribute the Putnam Funds and defined contribution investment only services to their customers, which, in total, includes approximately 158,000 advisors
- Sub-advisory relationships and Putnam-labeled funds as investment options for insurance companies and non-U.S. residents
- Retail distribution channels are supported by Putnam's sales and relationship management team
- Retirement plan sponsors and participants are supported by Putnam's dedicated retirement plan professionals and through a relationship with Empower Retirement.

Institutional Investors

- Supported by Putnam's dedicated account management, product management and client service professionals
- Strategic relationships with several investment management firms outside of the U.S.

(1) As at December 31, 2015

COMPETITIVE CONDITIONS

FINANCIAL SERVICES

The life insurance, savings and investments marketplace is competitive. The Company's competitors include mutual fund companies, insurance companies, banks, investment advisors and certain service and professional organizations. No one competitor or small number of competitors is dominant. Competition focuses on name recognition, service, technology, cost, variety of investment options, investment performance, product features, price and financial strength as indicated by ratings issued by nationally recognized agencies.

ASSET MANAGEMENT

The investment management business is highly competitive. Putnam competes with other providers of investment products and services, primarily based on the range of investment products offered, investment performance, distribution, scope and quality of shareholder and other services as well as general reputation in the marketplace. Putnam's investment management business is also influenced by general securities market conditions, government regulations, global economic conditions as well as advertising and sales promotional efforts. Putnam competes with other mutual fund firms and institutional asset managers that offer investment products similar to Putnam as well as products that Putnam does not offer. Putnam also competes with a number of mutual fund sponsors that offer their funds directly to the public. Conversely, Putnam offers its funds only through intermediaries.

Selected consolidated financial information – United States

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Premiums and deposits	**$ 15,956**	$ 13,719	$ 12,810	**$ 53,648**	$ 46,541
Sales	**31,630**	25,831	15,105	**95,715**	54,430
Fee and other income	**637**	591	522	**2,378**	1,820
Net earnings – common shareholders	**125**	96	89	**409**	306
Net earnings – common shareholders (US$)	**92**	73	77	**318**	274
Total assets	**$ 86,775**	$ 83,600	$ 72,902		
Proprietary mutual funds and institutional net assets	**218,231**	206,579	190,817		
Total assets under management	**305,006**	290,179	263,719		
Other assets under administration	**503,125**	468,712	433,754		
Total assets under administration	**$ 808,131**	$ 758,891	$ 697,473		

Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Financial services	**$ 86**	$ 106	$ 93	**$ 384**	$ 382
Asset management	**41**	(8)	(1)	**32**	(71)
Corporate	**(2)**	(2)	(3)	**(7)**	(5)
	$ 125	$ 96	$ 89	**$ 409**	$ 306
Financial services (US$)	**$ 63**	$ 81	$ 80	**$ 299**	$ 343
Asset management (US$)	**31**	(6)	(1)	**25**	(65)
Corporate (US$)	**(2)**	(2)	(2)	**(6)**	(4)
	$ 92	$ 73	$ 77	**$ 318**	$ 274

2015 Developments

- Under the Empower Retirement brand, effective January 1, 2015, the retirement services businesses of Great-West Financial, the acquired J.P. Morgan Retirement Plan Services (RPS) and Putnam have merged, creating the second largest recordkeeping provider in the U.S. The number of participant accounts has grown from 7.1 million at December 31, 2014 to over 7.5 million at December 31, 2015. Empower Retirement also includes the individual retirement account (IRA) business that was previously reported with Great-West Financial's Individual Markets results.
- Within the business unit sections, 2015 figures are aligned with the new business structure, while 2014 comparative figures reflect the previous structure.
- Net earnings for the twelve months ended December 31, 2015 were US$318 million, an increase of US$44 million compared to the same period in 2014. Net earnings for the three months ended December 31, 2015 were US$92 million, an increase of US$15 million compared to the same quarter last year.

Business Units – United States

Financial Services

2015 Developments

- Sales for the twelve months ended December 31, 2015 were US$43.2 billion, up from US$15.3 billion during the same period last year. Sales in the fourth quarter of 2015 were US$15.5 billion, an increase of US$11.5 billion compared to the same quarter in 2014, primarily due to higher large plan sales in Empower Retirement.
- Premiums and deposits for the twelve months ended December 31, 2015 were US$10.7 billion, a 31% increase from the same period last year. Premiums and deposits for the three months ended December 31, 2015 were US$3.8 billion, a 91% increase from the same quarter last year, primarily due to higher sales in Empower Retirement.
- Fee and other income for the twelve months ended December 31, 2015 was US$973 million compared to US$727 million for the same period in 2014. Fee and other income for the three months ended December 31, 2015 was US$260 million, an increase of US$45 million from the same quarter last year, primarily due to increased average assets driven by positive cash flows and higher average equity market levels.
- Net earnings for the twelve months ended December 31, 2015 were US$299 million compared to US$343 million for the same period in 2014. Net earnings for the three months ended December 31, 2015 were US$63 million, a decrease of US$17 million over the same quarter last year, primarily due to higher operating expenses and lower contributions from basis changes.
- Empower Retirement continues to incur strategic and business development expenses as it focuses on enhancements, which will improve the client-facing experience as well as streamline the back-office processing over the next several years. The Company anticipates investing approximately US$150 million in total on this multi-year initiative. For the three and twelve months ended December 31, 2015, these costs have decreased net earnings by US$9 million and US$34 million, respectively, with an expected decrease to net earnings of approximately US$20 million in 2016.
- The Company has set an annual cost savings target of US$40 million to US$50 million pre-tax. Integration activities are expected to be completed by the second quarter of 2017 with the annual reduction of operating costs fully reflected upon the completion of the business transformation in the next three to four years. These synergies are expected to be achieved through efficiencies from the conversion of business onto a single back-office platform, increased utilization of Great-West Global, which launched in the third quarter of 2015 with over 314 professionals based in India, as well as scale-driven cost improvement. Ongoing operations will include amortization expense from system and infrastructure enhancements. The Company expects that these enhancements will increase market share by driving future sales and improving the retention of participants and assets.

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Premiums and deposits	**$ 5,087**	$ 3,477	$ 2,268	**$ 13,798**	$ 9,028
Sales	**20,761**	15,589	4,563	**55,865**	16,917
Fee and other income	**349**	306	245	**1,247**	805
Net earnings	**86**	106	93	**384**	382
Premiums and deposits (US$)	**$ 3,796**	$ 2,655	$ 1,990	**$ 10,688**	$ 8,172
Sales (US$)	**15,493**	11,900	4,003	**43,195**	15,310
Fee and other income (US$)	**260**	233	215	**973**	727
Net earnings (US$)	**63**	81	80	**299**	343

Premiums and deposits

Premiums and deposits for the fourth quarter of 2015 increased by US$1.8 billion to US$3.8 billion compared to the same quarter last year, due to an increase of US$1.9 billion in Empower Retirement, partially offset by a decrease of US$0.1 billion in Individual Markets. The increase in Empower Retirement was primarily due to higher plan sales. In the fourth quarter of 2014, IRA premiums and deposits of US$0.1 billion were included in Individual Markets; in 2015, these are included in Empower Retirement.

For the twelve months ended December 31, 2015, premiums and deposits increased by US$2.5 billion to US$10.7 billion compared to the same period last year, due to an increase of US$3.2 billion in Empower Retirement, partially offset by a decrease of US$0.7 billion in Individual Markets. The increase in Empower Retirement was primarily due to the same reason discussed for the in-quarter results. The decrease in Individual Markets was primarily due to lower sales in the executive benefits and retail bank life insurance lines of business. For the twelve months ended December 31, 2014, IRA premiums and deposits of US$0.3 billion were included in Individual Markets; in 2015, these are included in Empower Retirement.

Premiums and deposits for the fourth quarter of 2015 increased by US$1.1 billion compared to the previous quarter, primarily due to higher sales relating to Empower Retirement and higher sales in the executive benefits line of business for Individual Markets.

Sales

Sales in the fourth quarter of 2015 increased by US$11.5 billion to US$15.5 billion compared to the same quarter last year, due to an increase of US$11.9 billion in Empower Retirement, partially offset by a decrease of US$0.4 billion in Individual Markets. The increase in Empower Retirement sales was primarily due to an increase in large plan sales. Approximately 50% of the in-quarter sales increase related to two new clients with approximately 140,000 participants. In the fourth quarter of 2014, IRA sales of US$0.4 billion were included in Individual Markets; in 2015, these are included in Empower Retirement.

For the twelve months ended December 31, 2015, sales increased by US$27.9 billion to US$43.2 billion compared to the same period last year. The increase was due to an increase of US$29.1 billion in Empower Retirement, partially offset by a decrease in Individual Markets of US$1.2 billion. The increase in Empower Retirement sales was primarily due to an increase in large plan sales. For the twelve months ended December 31, 2014, IRA sales of US$0.9 billion were included in Individual Markets; in 2015, these are included in Empower Retirement.

Sales in the fourth quarter of 2015 increased by US$3.6 billion compared to the previous quarter, due to an increase of US$3.4 billion in Empower Retirement as well as an increase of US$0.2 billion in Individual Markets. The increase in Empower Retirement sales was due to an increase in large plan sales, while the increase in Individual Markets was due to higher sales in the executive benefits line of business.

Empower Retirement – customer account values (US$)

	Change for the twelve months ended December 31		Total at December 31		
	2015	2014	**2015**	2014	% Change
General account – fixed options	$ **527**	$ 303	$ **10,993**	$ 10,466	5%
Segregated funds – variable options	**(801)**	129	**19,583**	20,384	(4)
Proprietary mutual funds [(1)]	**9,212**	1,217	**16,285**	7,073	130
Unaffiliated retail investment options & administrative services only [(2)]	**(12,930)**	193,921	**364,582**	377,512	(3)
	$ **(3,992)**	$ 195,570	$ **411,443**	$ 415,435	(1)%

(1) At December 31, 2015, proprietary mutual funds included US$6.6 billion in Putnam managed funds (US$0.9 billion at December 31, 2014) and US$0.7 billion of IRA assets transferred from Individual Markets.

(2) At December 31, 2015, unaffiliated retail investment options & administrative services only account values included US$1.0 billion of IRA assets transferred from Individual Markets. At December 31, 2014, unaffiliated retail investment options & administrative services only account values included US$4.6 billion where Empower Retirement provided administrative services for Putnam managed funds.

Empower Retirement customer account values at December 31, 2015 decreased by US$4.0 billion compared to December 31, 2014. Included in the US$12.9 billion decrease in unaffiliated retail investment options and administrative services only assets is the impact of the transfer of the defined contribution business from Putnam to Empower Retirement on January 1, 2015 which resulted in US$4.6 billion of these assets being recategorized to proprietary mutual funds and is reflected in the US$9.2 billion increase for proprietary mutual funds. Excluding the impact of the transfer, the decrease in the unaffiliated retail investment options and administrative services only account values was primarily due to a decline in the equity markets and net asset outflows. These items were partially offset by an increase in proprietary mutual funds due to net cash inflows.

Fee and other income

Fee income is derived primarily from assets under management, assets under administration, shareholder servicing fees, administration and record-keeping services and investment advisory services. Generally, fees are earned based on assets under management, assets under administration or the number of plans and participants for which services are provided.

Fee and other income for the fourth quarter of 2015 increased by US$45 million to US$260 million compared to the same quarter last year. The increase was primarily due to a one-time adjustment to fee income relating to variable asset-based fees of US$18 million, the impact of the transfer of the defined contribution business from Putnam to Empower Retirement on January 1, 2015 and higher-asset based fees, driven by growth in these assets, due to positive net cash flows and higher average equity market levels. In the fourth quarter of 2014, Putnam fees included US$8 million related to the transferred defined contribution business.

For the twelve months ended December 31, 2015, fee and other income increased by US$246 million to US$973 million compared to the same period last year, for the same reasons discussed for the in-quarter results. RPS fee income for the twelve months ended December 31, 2015 was US$183 million, an increase of US$129 million compared to the same period last year. For the twelve months ended December 31, 2014, Putnam fees included US$31 million related to the transferred defined contribution business.

Fee and other income for the fourth quarter of 2015 increased by US$27 million compared to the previous quarter. Excluding the adjustment discussed for the in-quarter results, fee and other income increased by US$9 million, primarily due to increased average assets under administration driven by higher average equity market levels and net positive cash flows in the fourth quarter.

Net earnings

Net earnings for the fourth quarter of 2015 decreased by US$17 million to US$63 million compared to the same quarter last year. Fourth quarter 2015 results include US$7 million of strategic and business development expenses related to Empower Retirement, compared to US$8 million for the fourth quarter of 2014. Excluding these expenses, net earnings decreased by US$18 million, primarily due to lower contributions from contract liability basis changes, lower contributions from investment experience, the impact of the transfer of the defined contribution business from Putnam to Empower Retirement as well as higher operating expenses. These decreases were partially offset by an adjustment of US$11 million to the contingent consideration related to the RPS acquisition to reflect current expectations for client retention. In the fourth quarter of 2014, Putnam's net loss included a net loss of US$4 million related to the transferred defined contribution business.

For the twelve months ended December 31, 2015, net earnings decreased by US$44 million to US$299 million compared to the same period last year. Included in the year-to-date net earnings was US$28 million of strategic and development expenses related to Empower Retirement, compared to US$11 million for the same period in 2014. Excluding these expenses, net earnings decreased by US$27 million, primarily due to lower contributions from contract liability basis changes, higher operating expenses and the impact of the transfer of the defined contribution business from Putnam to Empower Retirement. These decreases were partially offset by an adjustment to the RPS acquisition related contingent consideration discussed for the in-quarter results as well as higher contributions from investment experience. For the twelve months ended December 31, 2014, Putnam's net loss included a net loss of US$19 million related to the transferred defined contribution business.

Net earnings for the fourth quarter of 2015 decreased by US$18 million compared to the previous quarter, primarily due to lower contributions from basis changes, higher operating expenses, less favourable mortality experience, partially offset by an adjustment to the RPS acquisition related contingent consideration discussed for the in-quarter results.

Outlook – Financial Services

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

In 2015, continued progress of Great-West Financial's strategic initiatives positioned the Company for solid growth. Empower Retirement successfully completed its first full year of operations in 2015. Uniting three strong, established retirement businesses with unique yet complementary products and services, Empower Retirement is positioned for significant growth opportunities across all market segments.

In 2016, Empower Retirement's strategies to drive sales growth will continue to include active marketing of the brand, investing in product differentiation and offering a best-in-class service model. Empower Retirement combined the unique technology strengths of Great-West Financial, RPS and Putnam's retirement business to a single recordkeeping platform, including the 2015 launch of a unique, interactive web-based experience to help participants understand their retirement income needs. In 2016, service enhancements to this platform will include standardizing and improving client-facing tools, optimizing advisor relationship management and client alignment as well as adopting best practices for participant communications. The Company expects that these enhancements will increase customer retention and ultimately increase participant retirement savings.

Great-West Financial continually examines opportunities to structure products and develop strategies to stimulate growth in assets under management. The Company expects that the Great-West Lifetime funds and managed account offerings in defined contribution plans will continue to contribute to this growth.

In 2016, Great-West Financial will continue to pursue operational efficiencies. The conversion of the recordkeeping business to a single back-office platform and the migration of selected systems and non-client facing operations to the Great-West Global entity in India are significant initiatives to lower unit costs.

The Individual Markets segment will continue to focus on value oriented products with unique benefits distributed through channels that Great-West Financial understands. Great-West Financial focuses on providing value and innovative products to the partners, brokers and the customers they serve.

Great-West Financial was the second largest distributor of life insurance through banks in 2015. The Company's strategy focuses on protecting customers' wealth and income in retirement with a comprehensive suite of asset growth, income protection and wealth transfer products. To distribute retail retirement income products, the Company has established strategic partnerships with banks and independent broker dealers, which has more than doubled the number of advisors selling Great-West Financial's annuity products to nearly 20,000. This allows Great-West Financial to

better market the retirement income products to a larger number of individuals. New products, announced in 2015, will be launched in 2016 to reposition its retirement income product within the market. The Company expects the innovative distribution and product strategies will increase Great-West Financial's market share in the retirement income marketplace.

In the executive benefits market, Great-West Financial provides unique solutions to address the complex needs of organizations for funding employee benefits and retaining key executives. Great-West Financial partners with a network of specialized benefit consultants and brokers to create customized solutions based on clients' needs. The longstanding broker relationships and new partnerships that generated higher regional bank sales and record corporate bank sales in 2015 are expected to drive future sales growth.

Asset Management

2015 Developments

- Putnam's ending assets under management (AUM) at December 31, 2015 of US$148.4 billion decreased by US$9.2 billion compared to the same period last year, while average AUM for the twelve months ended December 31, 2015 of US$155.8 billion increased by US$0.6 billion compared to the same period last year.
- Sales for the twelve months ended December 31, 2015 were US$31.1 billion compared to US$33.9 billion for the same period in 2014. Putnam's sales for the three months ended December 31, 2015 were US$8.1 billion, a decrease of US$1.1 billion compared to the same period last year.
- Fee income for the twelve months ended December 31, 2015 was US$885 million compared to US$918 million for the same period in 2014. For the three months ended December 31, 2015, fee income was US$216 million, a decrease of US$27 million compared to the same period last year.
- Putnam continues to sustain strong investment performance relative to its peers. As of December 31, 2015, approximately 69% of Putnam's fund assets performed at levels above the Lipper median on a three-year basis.
- For the 26th consecutive year, Putnam has been recognized by DALBAR Inc. for mutual fund service quality, citing industry-leading consistency and reliability. This recognition includes Putnam being named as a DALBAR Mutual Fund Service Award winner for 24 of those years and the winner of DALBAR's Total Client Experience award for the past four years.
- Subsequent to December 31, 2015, in January 2016, Putnam launched Maneuver in Markets™, a multifaceted program to assist advisors and their clients to navigate four key challenges facing them today:
  - Navigating interest rates
  - Expanding short term choices
  - Diversifying to reduce risk
  - Pursuing greater returns

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Sales	**$ 10,869**	$ 10,242	$ 10,542	**$ 39,850**	$ 37,513
Fee income					
Investment management fees	**218**	219	197	**864**	743
Performance fees	**14**	5	13	**28**	30
Service fees	**44**	45	47	**173**	178
Underwriting & distribution fees	**12**	16	20	**66**	64
Fee income	**288**	285	277	**1,131**	1,015
Core net earnings (loss) (1)	**23**	8	14	**56**	(1)
Less: Financing and other expenses (after-tax) (1)	**18**	(16)	(15)	**(24)**	(70)
Reported net earnings (loss)	**41**	(8)	(1)	**32**	(71)
Sales (US$)	**$ 8,111**	$ 7,818	$ 9,248	**$ 31,097**	$ 33,908
Fee income (US$)					
Investment management fees (US$)	**163**	167	173	**676**	672
Performance fees (US$)	**11**	4	12	**23**	27
Service fees (US$)	**33**	34	41	**135**	161
Underwriting & distribution fees (US$)	**9**	12	17	**51**	58
Fee income (US$)	**216**	217	243	**885**	918
Core net earnings (loss) (US$) (1)	**17**	6	12	**43**	(2)
Less: Financing and other expenses (after-tax) (US$) (1)	**14**	(12)	(13)	**(18)**	(63)
Reported net earnings (loss) (US$)	**31**	(6)	(1)	**25**	(65)
Pre-tax operating margin (US$) (2)	**13.5%**	5.2%	13.4%	**8.5%**	4.9%

(1) Core net earnings (loss) (a non-IFRS financial measure) is a measure of the Asset Management business unit's performance. Core net earnings (loss) include the impact of dealer commissions and software amortization, and excludes the impact of corporate financing charges and allocations, fair value adjustments related to stock-based compensation, certain tax adjustments and other non-recurring transactions.

(2) Pre-tax operating margin (a non-IFRS financial measure) is a measure of the Asset Management business unit's pre-tax core net earnings (loss) divided by the sum of fee income and net investment income.

Sales

Sales in the fourth quarter of 2015 decreased by US$1.1 billion to US$8.1 billion compared to the same quarter last year, due to a decrease in mutual fund sales of US$2.0 billion, partially offset by higher institutional sales of US$0.9 billion.

For the twelve months ended December 31, 2015, sales decreased by US$2.8 billion to US$31.1 billion compared to the same period last year, due to a decrease in mutual fund sales of US$5.1 billion, partially offset by higher institutional sales of US$2.3 billion.

Sales in the fourth quarter of 2015 increased by US$0.3 billion compared to the previous quarter, due to a US$0.3 billion increase in institutional sales, while mutual fund sales were comparable to the previous quarter.

Fee income

Fee income is derived primarily from investment management fees, performance fees, transfer agency and other service fees, as well as underwriting and distribution fees. Generally, fees are earned based on AUM and may depend on financial markets, the relative performance of Putnam's investment products, the number of retail accounts and sales.

Fee income for the fourth quarter of 2015 decreased by US$27 million to US$216 million compared to the same quarter last year. Fee income for the fourth quarter of 2014 included US$8 million related to the defined contribution business, which was transferred to Empower Retirement (transferred defined contribution business) on January 1, 2015. Excluding the impact of the transferred defined contribution business, fee income decreased by US$19 million, primarily due to a decrease in investment management fees, driven by lower average AUM, and lower other asset and sales-based fees.

For the twelve months ended December 31, 2015, fee income decreased by US$33 million to US$885 million compared to the same period last year. Fee income for the twelve months ended December 31, 2014 included US$31 million related to the transferred defined contribution business. Excluding the impact of the transferred defined contribution business, fee income was comparable to the same period last year as lower performance fees and other asset and sales-based fees were offset by increased investment management fees, driven by a slightly higher average AUM.

Fee income for the fourth quarter of 2015 was comparable to the previous quarter as increased performance fees due to the seasonality in which these fees were earned were offset by decreased investment management fees and other asset and sales-based fees, driven by lower average AUM.

Net earnings

Core net earnings (a non-IFRS financial measure) for the fourth quarter of 2015 were US$17 million compared to US$12 million for the same quarter last year. Core net earnings for the fourth quarter of 2014 included a net loss of US$4 million attributable to the transferred defined contribution business and an expense recovery related to the settlement of a legal matter of US$12 million in the fourth quarter of 2014. Excluding the impact of these items, core net earnings increased US$13 million, primarily due to higher net investment income as well as lower income taxes, compensation costs and volume-related expenses, partially offset by lower fee income. In the fourth quarter of 2015, reported net earnings, including financing and other expenses, were US$31 million compared to a net loss of US$1 million for the same quarter last year. Financing and other expenses for the fourth quarter of 2015 represent an expense recovery of US$14 million, which includes the positive impact of an adjustment to certain income tax estimates of US$27 million, compared to expenses of US$13 million for the same quarter last year. Excluding the impact of the adjustment to certain tax estimates, financing and other expenses were comparable to the same quarter last year.

For the twelve months ended December 31, 2015, core net earnings were US$43 million compared to a net loss of US$2 million for the same period last year. Core net earnings for the twelve months ended December 31, 2014 included a net loss of US$19 million attributable to the transferred defined contribution business, tax expenses of US$13 million related to a one-time tax adjustment from prior years pertaining to foreign seed capital and the expense recovery of US$12 million discussed for the in-quarter results. Excluding the impact of these items, core net earnings increased US$25 million, primarily due to lower operating expenses, mostly offset by lower net investment income. For the twelve months ended December 31, 2015, reported net earnings, including financing and other expenses, were US$25 million compared to a net loss of US$65 million for the same period last year. Financing and other expenses for the twelve month period ended December 31, 2015 decreased by US$45 million to US$18 million compared to the same period last year. Current year financing and other expenses includes the previously discussed adjustment of certain income tax estimates of US$27 million. Financing and other expenses in 2014 included the impact of share-based liability compensation expenses of US$23 million, and proxy expenses for the Putnam Funds of US$4 million, partially offset by the release of certain tax reserves of US$8 million related to the completion of prior year tax audits, which did not recur in 2015.

Core net earnings for the fourth quarter of 2015 increased by US$11 million compared to the previous quarter, primarily due to an increase in net investment income and lower compensation costs, partially offset by higher income taxes. Reported net earnings, including financing and other expenses, for the fourth quarter of 2015 were US$31 million compared to a net loss of US$6 million for the previous quarter. Financing and other expenses for the fourth quarter of 2015 represent an expense recovery of US$14 million compared to expenses of US$12 million for previous quarter. This change was primarily due to the positive impact of an adjustment to certain income tax estimates discussed for the in-quarter results.

Assets Under Management

Assets under management ($US)

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Beginning assets	**$ 146,638**	$ 156,348	$ 157,047	**$ 157,572**	$ 149,556
Sales – Mutual funds	**4,252**	4,233	6,244	**18,593**	23,693
Redemptions – Mutual funds	**(6,543)**	(5,518)	(5,573)	**(22,735)**	(17,803)
Net asset flows – Mutual funds	**(2,291)**	(1,285)	671	**(4,142)**	5,890
Sales – Institutional	**3,859**	3,585	3,004	**12,504**	10,215
Redemptions – Institutional	**(2,772)**	(2,164)	(4,913)	**(11,221)**	(14,803)
Net asset flows – Institutional	**1,087**	1,421	(1,909)	**1,283**	(4,588)
Net asset flows – Total	**(1,204)**	136	(1,238)	**(2,859)**	1,302
Impact of market/performance	**2,936**	(9,846)	1,763	**(6,343)**	6,714
Ending assets	**$ 148,370**	$ 146,638	$ 157,572	**$ 148,370**	$ 157,572
Average assets under management					
Mutual funds	**80,180**	83,584	85,462	**84,689**	82,735
Institutional assets	**71,036**	69,757	71,769	**71,089**	72,394
Total average assets under management	**$ 151,216**	$ 153,341	$ 157,231	**$ 155,778**	$ 155,129

Average AUM for the three months ended December 31, 2015 decreased by US$6.0 billion to US$151.2 billion compared to the same quarter last year, primarily due to the cumulative impact of negative markets over the twelve month period as well as net asset outflows. Net asset outflows for the fourth quarter of 2015 of US$1.2 billion were comparable to the same quarter last year. In-quarter mutual fund net asset outflows were US$2.3 billion and institutional net asset inflows were US$1.1 billion.

Average AUM for the twelve months ended December 31, 2015 increased by US$0.6 billion to US$155.8 billion compared to the same period last year, primarily due to the impact of overall positive market and investment performance, mostly offset by net asset outflows. Net asset outflows for the twelve months ended December 31, 2015 were US$2.9 billion compared to net asset inflows of US$1.3 billion for the same period last year. Year-to-date mutual fund net asset outflows were US$4.1 billion and institutional net asset inflows were US$1.3 billion.

Average AUM decreased by US$2.1 billion compared to the previous quarter, primarily due to the impact of markets, driven by the timing of market movements during the quarters, and net asset outflows.

Outlook – Asset Management

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

In 2016, Putnam will continue to focus efforts on driving growth and market share through new sales and asset retention in all markets it serves including Global Institutional, PanAgora (Putnam's quantitative institutional manager), U.S. Retail, Defined Contribution Investment Only and Registered Investment Advisors, while maintaining its industry recognized reputation for service excellence.

Putnam continues to build strong, long-term investment performance across asset classes that have been recognized in the marketplace through accolades from industry observers. Putnam remains committed to providing clients with superior, risk-adjusted performance.

Innovation will remain a powerful differentiator in 2016, as Putnam further develops its product offerings, service features and operational functions, while bolstering its corporate and business/product brand image with a wide range of key constituents. Further, Putnam intends to continue to invest in technology in order to scale its business model more cost effectively and expand its distribution reach.

United States Corporate

United States Corporate consists of items not associated directly with or allocated to the United States business units, including the impact of certain non-continuing items related to the U.S. segment.

In the fourth quarter of 2015, United States Corporate had a net loss of US$2 million, which was comparable to the same period in 2014.

For the twelve months ended December 31, 2015, United States Corporate's net loss increased by US$2 million to US$6 million compared to the same period in 2014, due to RPS related restructuring and acquisition expenses.

The net loss for the three months ended December 31, 2015 of US$2 million was comparable to the previous quarter.

EUROPE

The Europe segment comprises two distinct business units: Insurance & Annuities and Reinsurance, together with an allocation of a portion of Lifeco's corporate results. Insurance & Annuities provides protection and wealth management products, including payout annuity products, through subsidiaries of Canada Life in the U.K., the Isle of Man and Germany, as well as through Irish Life in Ireland. Reinsurance operates primarily in the U.S., Barbados and Ireland, and is conducted through Canada Life, London Life and their subsidiaries.

TRANSLATION OF FOREIGN CURRENCY

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period.

Currency translation impact is a non-IFRS financial measure that highlights the impact of changes in currency translation rates on IFRS results. This measure provides useful information as it facilitates comparability of results between periods. Refer to the Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

BUSINESS PROFILE

INSURANCE & ANNUITIES

The core products offered in the U.K. are payout annuities, savings and group insurance. These products are distributed through independent financial advisors (IFAs) and employee benefit consultants. The offshore operations based in the Isle of Man and Ireland provide investment, savings and individual protection products that are sold through IFAs and private banks in the U.K. Canada Life Investments is the fund management division in the U.K. and manages over £36 billion of assets. These include equities, fixed-income, property, mortgages and cash for companies in the Lifeco group as well as a wide range of life, pension and collective funds. The funds are distributed mainly through financial advisors as well as wealth managers and discretionary fund managers in the U.K.

The core products offered in Ireland are savings and investments, individual and group insurance as well as pension products through Irish Life. These products are distributed through independent brokers, a direct sales force and tied agent bank branches. Irish Life Investment Managers (ILIM) is the Company's fund management operation in Ireland. ILIM manages assets on behalf of a wide range of institutional and retail clients, occupational defined benefit and defined contribution pensions, large multinational corporations, charities and domestic companies and is the largest manager of Irish pension assets.

The German operation focuses on pension, lifetime GMWB and individual protection products that are distributed through independent brokers and multi-tied agents.

Insurance & Annuities continues to expand its presence in its defined market segments by focusing on the introduction of innovative products and services, the quality of its service offerings as well as the enhancement of distribution capabilities and intermediary relationships.

REINSURANCE

Reinsurance operates primarily in the U.S., Barbados and Ireland. In the U.S., the reinsurance business operates through branches of Canada Life, London Life, subsidiaries of London Life and an indirect subsidiary of Great-West Financial. In Barbados, the reinsurance business operates primarily through branches of Canada Life, London Life and subsidiaries of London Life. In Ireland, the reinsurance business operates through subsidiaries of Canada Life.

The Company's business includes both reinsurance and retrocession business transacted directly with clients or through reinsurance brokers. As a retrocessionaire, the Company provides reinsurance to other reinsurers to allow those companies to spread their insurance risk.

The product portfolio offered by the Company includes life, annuity as well as property and casualty reinsurance, provided on both a proportional and non-proportional basis.

In addition to providing reinsurance products to third parties, the Company also utilizes internal reinsurance transactions between companies in the Lifeco group. These transactions are undertaken to better manage insurance risks relating to retention, volatility and concentration; and to facilitate capital management for the Company, its subsidiaries and branch operations. These internal reinsurance transactions may produce benefits that are reflected in one or more of the Company's other business units.

MARKET OVERVIEW

PRODUCTS AND SERVICES

INSURANCE & ANNUITIES

MARKET POSITION

U.K.

- The market leader of the group life market, with 26% share[1]
- A market leader in group income protection with 20% share[1]
- Among the top five insurers in payout annuities, with 20% market share[2]
- A market leading offshore life company selling into the U.K. market, with 25% market share[3]
- Among the top ten in the onshore unit-linked single premium bond market with a 9% market share[2]

Ireland

- The market leading life assurance company with 36% share[4]
- Strong position in the retail life and pensions market with a 30% share[4]
- Leading positions in the group pensions, group risk and corporate annuities markets
- ILIM is the largest institutional fund manager in Ireland with over €50 billion assets under management

Germany

- One of the top three insurers in the independent intermediary unit-linked market[4]
- Among the top ten in the overall unit-linked market[3]

(1) As at December 31, 2014
(2) Market share based on annualized Q1 to Q3 2015 data through IFAs, restricted whole market advisors and Non-Advised Distributor
(3) As at September 30, 2015
(4) As at June 30, 2015

Insurance & Annuities (cont'd)
Products and Services ***U.K.*** • Individual and Bulk Payout Annuities • Fixed Term Annuities • Pension Investment • Savings • Life Insurance • Income Protection (Disability) • Critical Illness ***Ireland*** • Individual and Group Risk & Pensions • Individual and Bulk Annuities • Wealth Management Services • Individual Savings and Investment • Institutional Investment Management ***Germany*** • Pensions • Income Protection (Disability) • Critical Illness • Variable Annuities (GMWB) • Individual Life Insurance
Distribution ***U.K.*** • IFAs • Private Banks • Employee Benefit Consultants ***Ireland*** • Independent Brokers • Pensions and Investment Consultants • Direct Sales Force • Tied Bank Branch Distribution with various Irish Banks ***Germany*** • Independent Brokers • Multi-tied Agents

Reinsurance
Market Position • Among the top two life reinsurers in the U.S. for assumed structured life reinsurance[(1)] • Positioned to participate in the developments of the evolving European structured life reinsurance market • Long-standing provider of a range of Property and Casualty catastrophe retrocession protection coverages • Leading provider of U.K. and other European annuity / longevity reinsurance
Products and Services ***Life*** • Yearly Renewable Term • Co-insurance • Modified Co-insurance • Capital Relief Solutions ***Property & Casualty*** • Catastrophe retrocession ***Annuity / Longevity*** • Payout Annuity • Fixed Annuity • Longevity Protection
Distribution • Independent Reinsurance Brokers • Direct Placements

(1) As at December 31, 2014

Competitive Conditions

United Kingdom

In the U.K., the Company has strong market positions for group risk, payout annuities and wealth management.

The U.K. Budget changes became effective April 2015, which provided greater flexibility for individuals retiring after April 1, 2015, causing a reduction in the demand for payout annuity products. In 2015, the Company continued to offer both standard and enhanced annuities, where prospective policyholders are medically underwritten before acceptance, and was able to maintain its market share. During 2015, the Company introduced new products under the CanRetire brand for individuals who want to take advantage of the greater pension flexibility. The Company also launched a bulk annuity offering, which is aimed at trustees of defined benefit plans, who want to insure pension annuities in payment. There have been a number of new entrants into this market, increasing competition, following the reduction in the overall size of the individual payout annuity market.

In 2015, the offshore wealth management operations experienced a relatively flat market, mainly the result of continued lower volumes of business from the private banking sector. The more profitable retail sales have been maintained as have sales via discretionary fund management firms. Future estate planning continues to be an area of focus for U.K. advisors and Canada Life International holds a market leading position in this sector of the market.

In July 2015, Canada Life acquired Legal & General International (Ireland) Limited (LGII), providing additional scale to its offshore operation in Ireland and gaining access to new institutional relationships within the U.K. market.

The onshore wealth management market has continued to stabilize after the decline in 2013 of investment bond business, resulting from the change in regulation affecting distribution.

Ireland

The Company maintained its market-leading presence in Ireland through Irish Life and continues to be the largest life assurance company with a market share of 36%. Irish Life follows a multi-channel distribution strategy with the largest broker distribution network, the largest direct sales force and the largest Bancassurance distribution network where it has tied relationships with five banks.

Irish Life Investment Managers (ILIM) is Ireland's largest institutional fund manager with over €50.4 billion of assets under management as at December 31, 2015.

Setanta Asset Management (Setanta), a subsidiary of Canada Life, manages assets for a number of institutional clients, both third-party institutions as well as for companies in the Lifeco group, and has €7.6 billion of assets under management as at December 31, 2015.

Germany

Canada Life has established a leading position among providers of unit-linked products to the German independent intermediary market. This market remains competitive as more companies enter the market due to the projected strong growth over the coming years. Throughout this period of increased competition, the Company has maintained a top three position in this segment of the market through continuous product, technology and service improvements.

In 2015, there was a decrease in the demand for traditional German insurance products following the reduction in the statutory guaranteed interest rate on these products. This created a growth opportunity for Canada Life and its unit-linked products.

Reinsurance

In the U.S. life reinsurance market, the demand for capital relief remains strong because of continuing conservative reserving requirements on term and universal life products. Several competitors are now focusing on growing their share of this market, which increased competition for this business. However, industry surveys released in 2015 confirmed that the Company remains one of the top two providers of capital relief solutions in the U.S. market.

The Company has also had success in traditional life reinsurance as the number of remaining life reinsurers is reducing due to consolidation and clients' value diversification. The Company's financial strength and ability to offer both capital solutions and traditional mortality reinsurance continues to be a competitive advantage.

In Europe, Solvency II dominates the regulatory landscape and interest in capital relief transactions that produce capital benefits under the new regime continues to grow. Demand for longevity reinsurance remains very strong in the U.K. and some continental European countries. As a result, there are now more reinsurers participating in this market, but even so demand for longevity coverage continues to exceed supply.

Property insurers/reinsurers saw few major catastrophes in 2015. The 2015 Atlantic hurricane season had a below average number of major storms. As a result, pricing in the property catastrophe market continues to be challenging.

Selected consolidated financial information – Europe

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Premiums and deposits	**$ 6,056**	$ 9,841	$ 5,340	**$ 27,763**	$ 19,359
Fee and other income	**327**	284	290	**1,221**	1,193
Net earnings – common shareholders	**303**	296	274	**1,174**	1,038
Total assets	**$ 167,265**	$ 162,402	$ 142,317		
Proprietary mutual funds and institutional net assets	**29,210**	27,575	20,736		
Total assets under management	**196,475**	189,977	163,053		
Other assets under administration	**41,587**	41,146	41,806		
Total assets under administration	**$ 238,062**	$ 231,123	$ 204,859		

Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Insurance & Annuities	**$ 234**	$ 229	$ 218	**$ 886**	$ 810
Reinsurance	**73**	71	71	**313**	265
Europe Corporate	**(4)**	(4)	(15)	**(25)**	(37)
Net earnings	**$ 303**	$ 296	$ 274	**$ 1,174**	$ 1,038

2015 Developments

- Net earnings for the twelve months ended December 31, 2015 were $1,174 million, an increase of $136 million compared to the same period in 2014. Net earnings for the three months ended December 31, 2015 were $303 million, an increase of $29 million from the same quarter last year.
- Premiums and deposits for the twelve months ended December 31, 2015 increased by $8.4 billion to $27.8 billion compared to the same period in 2014. Premiums and deposits for the three months ended December 31, 2015 were $6.1 billion, an increase of $0.7 billion from the same quarter last year, primarily due to higher sales across most product lines.
- Fee and other income for the twelve months ended December 31, 2015 increased by $28 million to $1,221 million compared to the same period in 2014. Fee and other income for the three months ended December 31, 2015 increased by $37 million to $327 million compared to the same quarter last year, primarily due to higher asset management fees.
- On March 3, 2015, the Company announced that it reached an agreement with The Equitable Life Assurance Society (Equitable Life) in the U.K. to acquire, through its wholly owned subsidiary, Canada Life Limited, the assets and liabilities associated with Equitable Life's annuity business. The transaction involved the initial reinsurance of approximately 31,000 policies, with liabilities and supporting assets of approximately $1.6 billion. The initial reinsurance arrangement was effective January 1, 2015 and the ultimate transfer is expected to be completed in 2016, subject to court approval.
- During the second quarter of 2015, the last of the policy migration activities for the Irish Life integration was successfully concluded. The Company now expects to realize €48 million of annualized synergies from the acquisition of Irish Life, exceeding the annualized synergy target of €40 million by 20%.
- On July 1, 2015, the Company, through its wholly owned subsidiary The Canada Life Group (U.K.) Limited, completed the acquisition of Legal & General International (Ireland) Limited (LGII), a Dublin-based subsidiary of the Legal & General Group Plc. LGII provides quality investment and wealth management solutions, primarily focused on the U.K. high-net-worth market. LGII now operates as Canada Life International Assurance (Ireland) (CLIAI). Prior to the acquisition, these assets were included in other assets under administration, as a subsidiary of Irish Life provided recordkeeping and administrative functions for the LGII portfolio; these assets are now included in segregated funds.
- One year since the re-launch of the Irish Life brand under the slogan "We know Irish life. We are Irish Life." the Company is now the preferred brand for consumers in the Pensions and Life Insurance categories and has strengthened its brand position into the top three in the Retail Investments category. The re-launch campaign won a number of awards, including best integrated campaign at the All Ireland Marketing Awards.
- At the 2015 Irish Pensions Awards, Irish Life Investment Managers was awarded the Investment Manager of the Year award for the third year in a row. In addition, Setanta Asset Management was awarded Equities Manager of the Year for the fourth consecutive year, reflecting very strong active equity performance.

Business Units – Europe

Insurance & Annuities

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Premiums and deposits	**$ 4,497**	$ 8,354	$ 3,875	**$ 22,127**	$ 14,931
Sales	**3,917**	7,716	3,155	**19,485**	12,388
Fee and other income	**320**	278	284	**1,197**	1,155
Net earnings	**234**	229	218	**886**	810

Premiums and deposits

Premiums and deposits for the fourth quarter of 2015 increased by $0.6 billion to $4.5 billion compared to the same quarter last year. The increase was due to higher sales across most product lines in the U.K., including the contribution from the acquired LGII business, Germany and Ireland as well as the impact of currency movement.

For the twelve months ended December 31, 2015, premiums and deposits increased by $7.2 billion to $22.1 billion compared to the same period last year. The increase was primarily due the acquisition of Equitable Life's annuity business in the first quarter of 2015, higher fund management sales, including $3.5 billion relating to Ark Life in the third quarter of 2015, as well as higher sales across most product lines in the U.K., Ireland and Germany. The increase was partially offset by the impact of currency movement, driven by the weakening of the euro in the first half of 2015, compared to the same period in 2014.

Premiums and deposits for the fourth quarter of 2015 decreased by $3.9 billion compared to the previous quarter, primarily due to lower fund management sales in Ireland, which included $3.5 billion related to Ark Life in the third quarter of 2015. The decrease was partially offset by higher sales across most product lines in Ireland and Germany as well as higher sales of wealth management products in the U.K.

Sales

Sales for the fourth quarter of 2015 increased by $0.8 billion to $3.9 billion compared to the same quarter last year. For the twelve months ended December 31, 2015, sales increased by $7.1 billion to $19.5 billion compared to the same period last year. The increases in both the three month and twelve month periods were due to the same reasons discussed for premiums and deposits for the respective periods.

Sales for the fourth quarter of 2015 decreased by $3.8 billion from the previous quarter, due to the same reasons discussed for premiums and deposits for the same period.

Fee and other income

Fee and other income for the fourth quarter of 2015 increased by $36 million to $320 million compared to the same quarter last year, primarily due to higher asset management fees in Ireland and Germany, driven by growth in assets under management and the impact of currency movement.

For the twelve months ended December 31, 2015, fee and other income increased by $42 million to $1,197 million compared to the same period last year, primarily due to the higher asset management fees in Ireland and Germany, driven by growth in assets under management, partially offset by the impact of currency movement, driven by the weakening of the euro in the first half of 2015, compared to the same period in 2014.

Fee and other income for fourth quarter of 2015 increased by $42 million compared the previous quarter, primarily due to higher asset management fees in Ireland and Germany, driven by growth in assets under management as well as higher gain related fee income amounts associated with a closed block of Irish unit-linked business. The fee income on this block of business is particularly sensitive to market levels at the start and end of a reporting period.

Net earnings

Net earnings for the fourth quarter of 2015 increased by $16 million to $234 million compared to the same quarter last year. The increase was primarily due to favourable morbidity experience in the U.K., higher contributions from investment experience in Ireland, a higher percentage of income subject to lower rates of income tax in foreign jurisdictions and the impact of currency movement. The increase was partially offset by less favourable mortality experience in the U.K. and lower contributions from insurance contract liability basis changes. In 2014, insurance contract liability basis changes mostly reflected the impact of changes to actuarial standards related to economic reinvestment assumptions. Net earnings included $110 million in Ireland, up $40 million from the same quarter in 2014, primarily due to higher contributions from investment experience and benefits from integration related activities.

Net earnings for the twelve months ended December 31, 2015 increased by $76 million to $886 million compared to the same period last year. The increase was primarily due to the impact of currency movement, higher contributions from insurance contract liability basis changes, higher asset management fees and favourable morbidity experience. These items were mostly offset by the impact of lower contributions from investment experience, lower U.K. payout annuity new business volumes and less favourable mortality experience in the U.K. Net earnings included $290 million in Ireland, up $27 million from the same period in 2014. The increase was primarily due to higher net fee income, higher contributions from investment experience and an increase in benefits from integration synergies and integration related activities, partially offset by lower contributions from insurance contract liability changes and the impact of currency movement, resulting from the weakening of the euro in the first half of 2015 compared to the same period in 2014.

Net earnings for the fourth quarter of 2015 increased by $5 million compared to the previous quarter as higher contributions from investment experience in Ireland were largely offset by lower contributions from insurance contract liability changes.

Outlook – Insurance & Annuities

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

In Europe, the implementation of Solvency II regulations has been the focus of the Company's regulated European businesses during 2015. Transitional measures, matching adjustments and volatility adjustments were applied for by a number of the Company's European subsidiaries and were approved as planned in 2015. In 2016, work will continue on developing the Company's internal risk models and undertaking steps to help manage the potential capital volatility under the new regulations.

United Kingdom – The outlook for payout annuities in 2016 is stable as the U.K. budget changes previously disclosed became effective in April 2015. These changes provide greater flexibility for those individuals with defined contribution pensions to access their savings in retirement. As expected, some individuals have chosen to retain their previous investments while drawing a pension income, rather than buying a payout annuity. However, the Company expects there will still be a demand from individuals for the guaranteed income provided by payout annuities. In 2016, the Company will look to develop its presence in the bulk annuity market, where trustees want to insure pension annuities in payment, and under the CanRetire brand will continue to develop additional products for individuals who prefer a more flexible product. The overall size of the retirement market is expected to grow as more retirees will have defined contribution pensions due to the closure of defined benefit schemes.

Canada Life continues to be a key player in the single premium investment bond marketplace. It will continue to develop a presence in both the offshore and onshore market segments. In 2016, the Company's distribution strategy for onshore will remain focused on IFAs. In the offshore wealth management segment, the outlook for 2016 is cautiously optimistic with an expectation that the market will experience modest growth. The private banking business is expected to stabilize in 2016. The Company expects business growth in 2016 will be driven by discretionary fund management wealth advisors, the retail market and through tax and estate planning products.

The outlook for the group life and health insurance operations remains positive. The business is benefiting from its strong segmental pricing discipline. With the market fundamentals of increased membership and salary inflation expected to slowly improve, the Company is well placed as the U.K. economy improves. The Group business will continue to show Group Income Protection pricing discipline, reflecting the low interest rate environment. The business has benefited from additional risk benefits within the operation's customer base as a result of the U.K. Government's Pensions Auto Enrolment initiative in

the workplace. This initiative started in October 2012 and will be complete in 2018. During 2015, small employers began to enroll in this initiative and now present an opportunity to increase the penetration of the U.K. group market with new business sales. Larger Canada Life plans have grown, as the pension legislation has increased the membership of the associated group plans. The Company expects the expansion of the existing customer base experienced in recent years will moderate as larger employers cease to be greatly influenced by the legislation.

Ireland – The economic recovery experienced in Ireland in 2014 continued into 2015, with private consumption increasing. The industry welcomed the elimination of the annual pension levy at the end of 2015, which was first introduced in 2011. These developments, coupled with an increase in employment levels and a projected strong gross domestic product (GDP) growth rate, are expected to positively influence growth in the life and pension new business markets in 2016.

During 2015, ILIM expanded into Canada and the U.S. with a number of newly attained relationships and specific mandates that utilize ILIM's active Quant solutions and ILIM's indexation capabilities. This creates a significant growth opportunity for ILIM, which is directly linked to relationships developed through companies in the Lifeco group.

Germany – The outlook for the German business is positive and the Company expects continued growth in assets under management in 2016.

Sales of unit-linked products grew significantly in 2015, with sales up 50% from 2014 levels. In 2016, the Company expects to continue to grow its market share of unit-linked products, as the market for traditional fixed interest guaranteed products declines, due to lower interest rates and increasing costs of guarantees. The Company is positioning itself to further strengthen its presence in the unit-linked market through continued investments in product development, distribution technology and service improvements.

Sales of occupational pension and protection products have continued to grow in 2015 and the Company expects the growth to continue in 2016.

Reinsurance

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2015	Sept. 30 2015	Dec. 31 2014	**Dec. 31 2015**	Dec. 31 2014
Premiums and deposits	**$ 1,559**	$ 1,487	$ 1,465	**$ 5,636**	$ 4,428
Fee and other income	**7**	6	6	**24**	38
Net earnings	**73**	71	71	**313**	265

Premiums and deposits

Reinsurance premiums can vary significantly from period to period depending on the terms of underlying treaties. For certain life reinsurance transactions, premiums will vary based on the form of the transaction. Treaties where insurance contract liabilities are assumed on a proportionate basis will typically have significantly higher premiums than treaties where claims are not incurred by the reinsurer until a threshold is exceeded. Earnings are not directly correlated to premiums received.

Premiums and deposits for the fourth quarter of 2015 increased by $0.1 billion to $1.6 billion compared to the same quarter last year, primarily due to new and restructured reinsurance agreements and the impact of currency movement.

For the twelve months ended December 31, 2015, premiums and deposits increased by $1.2 billion to $5.6 billion compared to the same period last year. The increase was primarily due to new and restructured reinsurance agreements as well as the impact of currency movement, partially offset by commuted treaties and an annuity reinsurance agreement entered into during 2014.

Premiums and deposits for the fourth quarter of 2015 increased by $0.1 billion compared to the previous quarter, primarily due to higher business volumes and the impact of currency movement.

Fee and other income

Fee and other income for the fourth quarter of 2015 of $7 million was comparable to both the same quarter last year and the previous quarter.

For the twelve months ended December 31, 2015, fee and other income decreased by $14 million to $24 million compared to the same period last year. Certain life treaties were restructured in the fourth quarter of 2014 and result in lower fee income on an ongoing basis.

Net earnings

Net earnings for the fourth quarter of 2015 increased by $2 million to $73 million compared to the same quarter last year. The increase was primarily due to lower new business strain and currency movement, mostly offset by lower contributions from insurance contract liability basis changes.

For the twelve months ended December 31, 2015, net earnings increased by $48 million to $313 million compared to the same period last year. The increase was primarily due to favorable mortality experience, changes to certain income tax estimates, higher contributions from insurance contract liability basis changes as well as the impact of currency movement. These increases were partially offset by higher new business strain in the traditional life business and less favorable morbidity experience.

Net earnings for the fourth quarter of 2015 increased by $2 million compared to the previous quarter, primarily due to due to higher contributions from insurance contract liability basis changes, partially offset by less favourable claims experience.

Outlook – Reinsurance

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

The U.S. life reinsurance industry is focused on accessing certain demographics, including the low to middle income families market. If the industry is successful, this could create renewed growth, otherwise expected sales and volume will remain stable. In 2016, new state specific regulations will impact the collateral needed for non-licensed reinsurance entities. This will affect the types of insurance products sold and the reinsurance needs over the next few years. Market demand for health reinsurance is expected to increase due to the *Affordable Care Act*. Additionally, new U.S. regulatory rules affecting the calculation of statutory reserves are expected to be effective in 2017.

In Europe, Solvency II is expected to continue to be the main driver of the business in 2016 and beyond. The Company's reinsurance operation is preparing to help European clients and other affiliated companies meet the potential capital challenges and business opportunities arising from these regulatory changes.

As 2015 saw few major catastrophes, the Company expects 2016 pricing for the property and casualty market will continue to soften, although not as significantly as in the previous two years. Hedge fund capacity, collateralized covers and catastrophe bond issuance are expected to continue to grow in 2016, while buyer demand is under downward pressure due to increasing client retention. The primary focus for 2016 will be to continue to move further away from the exposure risk, continue to utilize the most recent U.S. modeling updates from Risk Management Solutions (RMS) and manage geographic exposures without significant impact on margins.

Europe Corporate

The Europe Corporate account includes financing charges and the impact of certain non-continuing items as well as the results for the legacy international businesses.

In the fourth quarter of 2015, Europe Corporate had a net loss of $4 million compared to a net loss of $15 million for the same quarter last year. The change was primarily due to lower expense provisions on the Company's legacy international businesses and lower restructuring and acquisition costs. Fourth quarter 2015 results include restructuring and acquisition costs of $2 million relating to the acquisition of LGII, compared to $6 million relating to the acquisition of Irish Life for the same quarter last year.

For the twelve months ended December 31, 2015, Europe Corporate had a net loss of $25 million compared to a net loss of $37 million for the same period last year. The change was due to the same reasons discussed for the in-quarter results. Included in the year-to-date net loss was $20 million of Irish Life and LGII related restructuring and acquisition costs in 2015, compared to $25 million of Irish Life restructuring costs for the same period in 2014.

The net loss for the three months ended December 31, 2015 was comparable to the previous quarter.

Lifeco Corporate Operating Results

The Lifeco Corporate segment includes operating results for activities of Lifeco that are not associated with the major business units of the Company.

The net loss for the three months ended December 31, 2015 of $7 million was comparable to the same quarter last year, as lower preferred share dividend payments were mostly offset by lower investment income. In 2015, preferred share dividends related to preferred shares issued in the second quarter of 2014 were allocated to the Canada segment.

For the twelve months ended December 31, 2015, Lifeco Corporate had a net loss of $16 million, compared to a net loss of $26 million for the same period last year. The change was primarily due to lower preferred share dividends and higher investment income.

The net loss for the three months ended December 31, 2015 of $7 million decreased from net earnings of $2 million for the previous quarter, primarily due to lower investment income. In addition, net earnings for the third quarter of 2015 were positively impacted by changes to certain income tax estimates.

OTHER INFORMATION

SELECTED ANNUAL INFORMATION

(in $ millions, except per share amounts)	Years ended December 31		
	2015	2014	2013
Total revenue	**$ 33,820**	$ 39,181	$ 26,446
Net earnings – common shareholders			
Operating earnings [1]	**$ 2,762**	$ 2,546	$ 2,052
Net earnings	**2,762**	2,546	2,278
Net earnings per common share			
Operating [1]	**$ 2.774**	$ 2.549	$ 2.108
Basic	**2.774**	2.549	2.340
Diluted	**2.768**	2.546	2.297
Total assets			
Total assets	**$ 399,935**	$ 356,709	$ 325,876
Proprietary mutual funds and institutional net assets	**252,480**	216,271	185,243
Total assets under management	**652,415**	572,980	511,119
Other assets under administration	**560,102**	490,353	247,139
Total assets under administration	**$ 1,212,517**	$ 1,063,333	$ 758,258
Total liabilities	**$ 374,675**	$ 334,812	$ 306,046
Dividends paid per share			
Series F First Preferred	**1.4750**	1.4750	1.4750
Series G First Preferred	**1.3000**	1.3000	1.3000
Series H First Preferred	**1.21252**	1.21252	1.21252
Series I First Preferred	**1.1250**	1.1250	1.1250
Series J First Preferred [2]	**–**	–	1.50000
Series L First Preferred	**1.41250**	1.41250	1.41250
Series M First Preferred	**1.450**	1.450	1.450
Series N First Preferred	**0.912500**	0.912500	0.912500
Series O First Preferred [3]	**–**	–	–
Series P First Preferred	**1.350**	1.350	1.350
Series Q First Preferred	**1.2875**	1.2875	1.2875
Series R First Preferred	**1.200**	1.200	1.200
Series S First Preferred [4]	**1.312500**	0.799185	–
Common	**1.304**	1.230	1.230

(1) Operating earnings (a non-IFRS financial measure) excludes the impact of certain litigation provisions. Refer to the "Cautionary Note Regarding Non-IFRS Financial Measures" section of this document.

(2) The Series J First Preferred Shares were redeemed on December 31, 2013.

(3) The Series O First Preferred Shares were issued on December 31, 2015.

(4) The Series S First Preferred Shares were issued on May 22, 2014. The first dividend payment was made on September 30, 2014 in the amount of $0.47106 per share. Regular quarterly dividends are $0.328125 per share.

Quarterly Financial Information

(in $ millions, except per share amounts)	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue [(1)]	**$ 8,321**	$ 8,596	$ 4,224	$ 12,679	$ 10,723	$ 8,451	$ 10,070	$ 9,937
Common shareholders								
Net earnings								
Total	**683**	720	659	700	657	687	615	587
Basic – per share	**0.688**	0.724	0.661	0.702	0.658	0.687	0.616	0.587
Diluted – per share	**0.686**	0.722	0.659	0.700	0.657	0.686	0.615	0.587

(1) Revenue includes the change in fair value through profit or loss on investment assets.

Lifeco's consolidated net earnings attributable to common shareholders were $683 million for the fourth quarter of 2015 compared to $657 million reported a year ago. On a per share basis, this represents $0.688 per common share ($0.686 diluted) for the fourth quarter of 2015 compared to $0.658 per common share ($0.657 diluted) a year ago.

Total revenue for the fourth quarter of 2015 was $8,321 million and comprises premium income of $6,162 million, regular net investment income of $1,670 million, a negative change in fair value through profit or loss on investment assets of $844 million and fee and other income of $1,333 million.

Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information relating to the Company which is required to be disclosed in reports filed under provincial and territorial securities legislation is: (a) recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation, and (b) accumulated and communicated to the Company's senior management, including the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2015 and, based on such evaluation, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

Internal Control Over Financial Reporting

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's management is responsible for establishing and maintaining effective internal control over financial reporting. All internal control systems have inherent limitations and may become ineffective because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management, under the supervision of the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, has evaluated the effectiveness of the Company's internal control over financial reporting based on the 2013 *Internal Control - Integrated Framework* (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management adopted the revised 2013 COSO Framework in 2015 as the basis to evaluate the effectiveness of the Lifeco's internal control over financial reporting.

Management evaluated the effectiveness of the Company's internal control over financial reporting as at December 31, 2015 and, based on such evaluation, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer have concluded that the Company's internal control over financial reporting is effective and that there are no material weaknesses in the Company's internal control over financial reporting.

Transactions with Related Parties

In the normal course of business, Great-West Life provided insurance benefits to other companies within the Power Financial Corporation, Lifeco's parent, group of companies. In all cases, transactions were at market terms and conditions.

During the year, Great-West Life provided to and received from IGM Financial Inc. and its subsidiaries (IGM), a member of the Power Financial Corporation group of companies, certain administrative services. Great-West Life also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM.

At December 31, 2015 the Company held $43 million ($43 million in 2014) of debentures issued by IGM.

During the normal course of business in 2015, Great-West Life, London Life and segregated funds maintained by London Life purchased residential mortgages of $206 million from IGM ($184 million in 2014).

The Company provides asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of the Company and its subsidiaries.

As at December 31, 2015 and December 31, 2014, there were no significant outstanding loans or guarantees and no loans or guarantees issued during 2015 or 2014. There were no provisions for uncollectible amounts from related parties during 2015 and 2014.

Translation of Foreign Currency

Through its operating subsidiaries, Lifeco conducts business in multiple currencies. The four primary currencies are the Canadian dollar, the U.S. dollar, the British pound and the euro. Throughout this document, foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the reporting period. All income and expense items are translated at an average rate for the period. The rates employed are:

Translation of foreign currency

	2015				2014			
Period ended	**Dec. 31**	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
United States dollar								
Balance sheet	**$ 1.38**	$ 1.34	$ 1.25	$ 1.27	$ 1.16	$ 1.12	$ 1.07	$ 1.11
Income and expenses	**$ 1.34**	$ 1.31	$ 1.23	$ 1.24	$ 1.14	$ 1.09	$ 1.09	$ 1.10
British pound								
Balance sheet	**$ 2.04**	$ 2.02	$ 1.96	$ 1.88	$ 1.81	$ 1.82	$ 1.83	$ 1.84
Income and expenses	**$ 2.03**	$ 2.03	$ 1.89	$ 1.88	$ 1.80	$ 1.82	$ 1.84	$ 1.83
Euro								
Balance sheet	**$ 1.50**	$ 1.50	$ 1.39	$ 1.36	$ 1.40	$ 1.42	$ 1.46	$ 1.52
Income and expenses	**$ 1.46**	$ 1.46	$ 1.36	$ 1.40	$ 1.42	$ 1.44	$ 1.50	$ 1.51

Additional information relating to Lifeco, including Lifeco's most recent consolidated financial statements, CEO/CFO certification and Annual Information Form are available at www.sedar.com.

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CONSOLIDATED STATEMENTS OF EARNINGS

(in Canadian $ millions except per share amounts)

For the years ended December 31	2015	2014
Income		
Premium income		
Gross premiums written	**$ 28,129**	$ 24,686
Ceded premiums	**(3,628)**	(3,464)
Total net premiums	**24,501**	21,222
Net investment income (note 5)		
Regular net investment income	**6,271**	6,010
Changes in fair value through profit or loss	**(2,010)**	7,527
Total net investment income	**4,261**	13,537
Fee and other income	**5,058**	4,422
	33,820	39,181
Benefits and expenses		
Policyholder benefits		
Gross	**22,553**	19,363
Ceded	**(2,000)**	(1,928)
Total net policyholder benefits	**20,553**	17,435
Policyholder dividends and experience refunds	**1,477**	1,496
Changes in insurance and investment contract liabilities	**812**	10,229
Total paid or credited to policyholders	**22,842**	29,160
Commissions	**2,218**	2,084
Operating and administrative expenses (note 29)	**4,466**	3,741
Premium taxes	**339**	339
Financing charges (note 16)	**303**	304
Amortization of finite life intangible assets (note 11)	**146**	132
Restructuring and acquisition expenses	**35**	32
Earnings before income taxes	**3,471**	3,389
Income taxes (note 28)	**460**	628
Net earnings before non-controlling interests	**3,011**	2,761
Attributable to non-controlling interests (note 20)	**123**	93
Net earnings	**2,888**	2,668
Preferred share dividends	**126**	122
Net earnings – common shareholders	**$ 2,762**	$ 2,546
Earnings per common share (note 25)		
Basic	**$ 2.774**	$ 2.549
Diluted	**$ 2.768**	$ 2.546

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in Canadian $ millions)

For the years ended December 31	2015	2014
Net earnings	**$ 2,888**	$ 2,668
Other comprehensive income		
Items that may be reclassified subsequently to Consolidated Statements of Earnings		
Unrealized foreign exchange gains on translation of foreign operations	**2,058**	539
Unrealized foreign exchange gains (losses) on euro debt designated as hedge of the net investment in foreign operations	**(50)**	35
Income tax benefit	**9**	–
Unrealized gains (losses) on available-for-sale assets	**(20)**	313
Income tax (expense) benefit	**7**	(62)
Realized gains on available-for-sale assets	**(104)**	(52)
Income tax expense	**17**	10
Unrealized losses on cash flow hedges	**(251)**	(107)
Income tax benefit	**95**	41
Realized losses on cash flow hedges	**2**	2
Income tax benefit	**(1)**	(1)
Non-controlling interests	**(57)**	(77)
Income tax benefit	**3**	20
Total items that may be reclassified	**1,708**	661
Items that will not be reclassified to Consolidated Statements of Earnings		
Re-measurements on defined benefit pension and other post-employment benefit plans	**167**	(523)
Income tax (expense) benefit	**(32)**	130
Non-controlling interests	**(5)**	32
Income tax (expense) benefit	**2**	(8)
Total items that will not be reclassified	**132**	(369)
Total other comprehensive income	**1,840**	292
Comprehensive income	**$ 4,728**	$ 2,960

CONSOLIDATED BALANCE SHEETS

(in Canadian $ millions)

December 31	2015	2014
Assets		
Cash and cash equivalents (note 4)	$ 2,813	$ 2,498
Bonds (note 5)	114,943	103,168
Mortgage loans (note 5)	22,021	20,546
Stocks (note 5)	7,873	7,820
Investment properties (note 5)	5,237	4,613
Loans to policyholders	8,694	7,711
	161,581	146,356
Funds held by ceding insurers (note 6)	15,512	12,154
Goodwill (note 11)	5,913	5,855
Intangible assets (note 11)	4,036	3,625
Derivative financial instruments (note 30)	461	652
Owner occupied properties (note 12)	653	619
Fixed assets (note 12)	298	228
Other assets (note 13)	2,643	2,368
Premiums in course of collection, accounts and interest receivable	3,553	3,056
Reinsurance assets (note 15)	5,131	5,151
Current income taxes (note 28)	69	48
Deferred tax assets (note 28)	1,891	1,631
Investments on account of segregated fund policyholders (note 14)	198,194	174,966
Total assets	$ 399,935	$ 356,709
Liabilities		
Insurance contract liabilities (note 15)	$ 158,492	$ 145,198
Investment contract liabilities (note 15)	2,180	857
Debentures and other debt instruments (note 17)	5,395	5,355
Capital trust securities (note 18)	161	162
Funds held under reinsurance contracts	356	313
Derivative financial instruments (note 30)	2,624	1,195
Accounts payable	1,755	1,480
Other liabilities (note 19)	3,367	3,099
Current income taxes (note 28)	492	737
Deferred tax liabilities (note 28)	1,659	1,450
Investment and insurance contracts on account of segregated fund policyholders (note 14)	198,194	174,966
Total liabilities	374,675	334,812
Equity		
Non-controlling interests (note 20)		
Participating account surplus in subsidiaries	2,611	2,480
Non-controlling interests in subsidiaries	195	163
Shareholders' equity		
Share capital (note 21)		
Preferred shares	2,514	2,514
Common shares	7,156	7,102
Accumulated surplus	10,431	9,134
Accumulated other comprehensive income (note 26)	2,218	378
Contributed surplus	135	126
Total equity	25,260	21,897
Total liabilities and equity	$ 399,935	$ 356,709

Approved by the Board of Directors:

Signed,
Jeffrey Orr
Director

Signed,
Paul Mahon
Director

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in Canadian $ millions)

	December 31, 2015					
	Share capital	**Contributed surplus**	**Accumulated surplus**	**Accumulated other comprehensive income**	**Non-controlling interests**	**Total equity**
Balance, beginning of year	**$ 9,616**	**$ 126**	**$ 9,134**	**$ 378**	**$ 2,643**	**$ 21,897**
Net earnings	**–**	**–**	**2,888**	**–**	**123**	**3,011**
Other comprehensive income	**–**	**–**	**–**	**1,840**	**57**	**1,897**
	9,616	**126**	**12,022**	**2,218**	**2,823**	**26,805**
Dividends to shareholders						
Preferred shareholders (note 21)	**–**	**–**	**(126)**	**–**	**–**	**(126)**
Common shareholders (note 25)	**–**	**–**	**(1,298)**	**–**	**–**	**(1,298)**
Shares exercised and issued under share-based payment plans (note 21)	**99**	**(49)**	**–**	**–**	**39**	**89**
Share-based payment plans expense	**–**	**58**	**–**	**–**	**–**	**58**
Equity settlement of Putnam share-based plans	**–**	**–**	**–**	**–**	**(47)**	**(47)**
Shares purchased and cancelled under Normal Course Issuer Bid (note 21)	**(221)**	**–**	**–**	**–**	**–**	**(221)**
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid (note 21)	**176**	**–**	**(176)**	**–**	**–**	**–**
Dilution gain on non-controlling interests	**–**	**–**	**9**	**–**	**(9)**	**–**
Balance, end of year	**$ 9,670**	**$ 135**	**$ 10,431**	**$ 2,218**	**$ 2,806**	**$ 25,260**

	December 31, 2014					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income	Non-controlling interests	Total equity
Balance, beginning of year	$ 9,426	$ 57	$ 7,899	$ 86	$ 2,362	$ 19,830
Net earnings	–	–	2,668	–	93	2,761
Other comprehensive income	–	–	–	292	33	325
	9,426	57	10,567	378	2,488	22,916
Dividends to shareholders						
Preferred shareholders (note 21)	–	–	(122)	–	–	(122)
Common shareholders (note 25)	–	–	(1,228)	–	–	(1,228)
Shares exercised and issued under share-based payment plans (note 21)	10	(6)	–	–	–	4
Share-based payment plans expense	–	41	–	–	–	41
Modification to share-based plans (note 23)	–	34	–	–	211	245
Equity settlement of Putnam share-based plans	–	–	–	–	(60)	(60)
Shares purchased and cancelled under Normal Course Issuer Bid (note 21)	(95)	–	–	–	–	(95)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid (note 21)	75	–	(75)	–	–	–
Issuance of preferred shares (note 21)	200	–	–	–	–	200
Share issue costs (note 21)	–	–	(4)	–	–	(4)
Reallocation from shareholder account to participating account in London Life (note 20)	–	–	(4)	–	4	–
Balance, end of year	$ 9,616	$ 126	$ 9,134	$ 378	$ 2,643	$ 21,897

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in Canadian $ millions)

For the years ended December 31	2015	2014
Operations		
Earnings before income taxes	**$ 3,471**	$ 3,389
Income taxes paid, net of refunds received	**(361)**	(490)
Adjustments:		
Change in insurance and investment contract liabilities	**(1,088)**	9,726
Change in funds held by ceding insurers	**821**	428
Change in funds held under reinsurance contracts	**28**	(34)
Change in deferred acquisition costs	**32**	41
Change in reinsurance assets	**367**	(160)
Changes in fair value through profit or loss	**2,010**	(7,527)
Other	**(157)**	70
	5,123	5,443
Financing Activities		
Issue of common shares (note 21)	**99**	10
Issue of preferred shares (note 21)	**–**	200
Share issue costs (note 21)	**–**	(4)
Purchased and cancelled common shares (note 21)	**(221)**	(95)
Decrease in line of credit of subsidiary	**(130)**	(98)
Decrease in debentures and other debt instruments	**(7)**	(348)
Dividends paid on common shares	**(1,298)**	(1,228)
Dividends paid on preferred shares	**(126)**	(122)
	(1,683)	(1,685)
Investment Activities		
Bond sales and maturities	**29,082**	26,962
Mortgage loan repayments	**2,926**	2,525
Stock sales	**2,107**	3,099
Investment property sales	**206**	98
Change in loans to policyholders	**8**	73
Business acquisitions, net of cash and cash equivalents acquired	**(4)**	(43)
Investment in bonds	**(32,015)**	(31,104)
Investment in mortgage loans	**(3,033)**	(3,543)
Investment in stocks	**(2,423)**	(2,069)
Investment in investment properties	**(278)**	(127)
	(3,424)	(4,129)
Effect of changes in exchange rates on cash and cash equivalents	**299**	78
Increase (decrease) in cash and cash equivalents	**315**	(293)
Cash and cash equivalents, beginning of year	**2,498**	2,791
Cash and cash equivalents, end of year	**$ 2,813**	$ 2,498
Supplementary cash flow information		
Interest income received	**$ 5,386**	$ 4,988
Interest paid	**$ 295**	$ 298
Dividend income received	**$ 239**	$ 246

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian $ millions except per share amounts)

1. Corporate Information

Great-West Lifeco Inc. (Lifeco or the Company) is a publicly listed company (Toronto Stock Exchange: GWO), incorporated and domiciled in Canada. The registered address of the Company is 100 Osborne Street North, Winnipeg, Manitoba, Canada, R3C 1V3. Lifeco is a member of the Power Financial Corporation (Power Financial) group of companies and its direct parent is Power Financial.

Lifeco is a financial services holding company with interests in the life insurance, health insurance, retirement savings, investment management and reinsurance businesses, primarily in Canada, the United States and Europe through its major operating subsidiaries The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), Great-West Life & Annuity Insurance Company (Great-West Financial) and Putnam Investments, LLC (Putnam).

The consolidated financial statements (financial statements) of the Company as at and for the year ended December 31, 2015 were approved by the Board of Directors on February 11, 2016.

2. Basis of Presentation and Summary of Accounting Policies

The financial statements of the Company have been prepared in compliance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Uniform accounting policies were applied in the preparation of the Company's consolidated financial statements.

The Company adopted the narrow scope amendments to International Financial Reporting Standards (IFRS) for *Annual Improvements 2010 - 2012 Cycle, Annual Improvements 2011 - 2013 Cycle* and IAS 19 *Employee Benefits* effective January 1, 2015. The adoption of these narrow scope amendments did not have a significant impact on the Company's financial statements.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company as at and for the year ended December 31, 2015 with comparatives for December 31, 2014. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The Company has control when it has the power to direct the relevant activities, has significant exposure to variable returns from these activities and has the ability to use its power to affect the Company's variable returns. All intra-group balances, transactions, income and expenses and profits or losses, including dividends resulting from intra-group transactions, are eliminated on consolidation.

Use of Significant Judgments, Estimates and Assumptions

In preparation of these financial statements, management is required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings and related disclosures. Although some uncertainty is inherent in these judgments and estimates, management believes that the amounts recorded are reasonable. Key sources of estimation uncertainty and areas where significant judgments have been made are listed below and discussed throughout the notes to these financial statements including:

- Management uses independent qualified appraisal services, which utilize judgments and estimates. These appraisals are adjusted by applying management judgments and estimates for material changes in property cash flows, capital expenditures or general market conditions in determining the fair value of investment properties (note 5).
- In the determination of the fair value of financial instruments, the Company's management exercises judgment in the determination of fair value inputs, particularly those items categorized within level 3 of the fair value hierarchy (note 8).
- Management evaluates the synergies and future benefit for initial recognition and measurement of goodwill and intangible assets as well as testing the recoverable amounts. The determination of the carrying value and recoverable amounts of the cash generating unit groupings for goodwill and intangible assets relies upon the determination of fair value using valuation methodologies (note 11).
- Cash generating units for goodwill and indefinite life intangible assets have been determined by management as the lowest level that the goodwill is monitored for internal reporting purposes, which requires management judgment in the determination of the lowest level of monitoring (note 11).
- Judgments are used by management in determining whether deferred acquisition costs and deferred income reserves can be recognized on the Consolidated Balance Sheets. Deferred acquisition costs are recognized if management determines the costs meet the definition of an asset and are incremental and related to the issuance of the investment contract. Deferred income reserves are amortized on a straight-line basis over the term of the policy (notes 13 and 19).
- The actuarial assumptions, such as policyholder behaviour, mortality and morbidity of policyholders, used in the valuation of insurance and certain investment contract liabilities under the Canadian Asset Liability Method require significant judgment and estimation (note 15).
- The actuarial assumptions used in determining the expense and benefit obligations for the Company's defined benefit pension plans and other post-employment benefits requires significant judgment and estimation. Management reviews previous experience of its plan members and market conditions including interest rates and inflation rates in evaluating the assumptions used in determining the expense for the current year (note 24).

- The Company operates within various tax jurisdictions where significant management judgments and estimates are required when interpreting the relevant tax laws, regulations and legislation in the determination of the Company's tax provisions and the carrying amounts of its tax assets and liabilities (note 28).
- Legal and other provisions are recognized resulting from a past event which, in the judgment of management, has resulted in a probable outflow of economic resources which would be passed to a third-party to settle the obligation. Management uses judgment to evaluate the possible outcomes and risks in determining the best estimate of the provision at the balance sheet date (note 31).
- The operating segments of the Company, which are the segments reviewed by the Company's Chief Executive Officer to assess performance and allocate resources within the Company, are aligned with the Company's geographic operations. Management applies judgment in the aggregation of the business units into the Company's operating segments (note 33).
- Management uses judgment to evaluate the classification of insurance and reinsurance contracts to determine whether these arrangements should be accounted for as insurance, investment or service contracts.
- Management consolidates all subsidiaries and entities which it is determined that the Company controls. Control is evaluated on the ability of the Company to direct the activities of the subsidiary or entity to derive variable returns and management uses judgment in determining whether control exists. Judgment is exercised in the evaluation of the variable returns and in determining the extent to which the Company has the ability to exercise its power to generate variable returns.
- Management uses judgments, such as the determination of the risks and benefits associated with the transaction that are used in determining whether the Company retains the primary obligation with a client in sub-advisor arrangements. Where the Company retains the risks and benefits, revenue and expenses are recorded on a gross basis.
- Within the Consolidated Statements of Cash Flows, purchases and sales of portfolio investments are recorded within investment activities due to the long-term nature of these investing activities.
- The results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. The provision for future credit losses within the Company's insurance contract liabilities relies upon investment credit ratings. The Company's practice is to use third-party independent credit ratings where available. Management judgment is required when setting credit ratings for instruments that do not have a third-party rating.

The significant accounting policies are as follows:

(a) Portfolio Investments

Portfolio investments include bonds, mortgage loans, stocks and investment properties. Portfolio investments are classified as fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables or as non-financial instruments based on management's intention relating to the purpose and nature of the instrument or characteristics of the investment. The Company has not classified any investments as held-to-maturity.

Investments in bonds and stocks normally actively traded on a public market are either designated or classified as fair value through profit or loss or classified as available-for-sale on a trade date basis. A financial asset is designated as fair value through profit or loss on initial recognition if it eliminates or significantly reduces an accounting mismatch. Changes in the fair value of financial assets designated as fair value through profit or loss are generally offset by changes in insurance contract liabilities, since the measurement of insurance contract liabilities is determined with reference to the assets supporting the liabilities. A financial asset is classified as fair value through profit or loss on initial recognition if it is part of a portfolio that is actively traded for the purpose of earning investment income. Fair value through profit or loss investments are recognized at fair value on the Consolidated Balance Sheets with realized and unrealized gains and losses reported in the Consolidated Statements of Earnings. Available-for-sale investments are recognized at fair value on the Consolidated Balance Sheets with unrealized gains and losses recorded in other comprehensive income. Realized gains and losses are reclassified from other comprehensive income and recorded in the Consolidated Statements of Earnings when the available-for-sale investment is sold. Interest income earned on both fair value through profit or loss and available-for-sale bonds is recorded as net investment income in the Consolidated Statements of Earnings.

Investments in equity instruments where a fair value cannot be measured reliably are classified as available-for-sale, carried at cost and fair value disclosure is not applicable. Investments in stocks for which the Company exerts significant influence over but does not control are accounted for using the equity method of accounting. Investments in stocks over which the Company exerts significant influence but does not control include the Company's investment in an affiliated company, IGM Financial Inc. (IGM), a member of the Power Financial group of companies, and Allianz Ireland, an unlisted general insurance company operating in Ireland. The investments are accounted for using the equity method of accounting.

Investments in mortgages and bonds not normally actively traded on a public market are classified as loans and receivables and are carried at amortized cost net of any allowance for credit losses. Interest income earned and realized gains and losses on the sale of investments classified as loans and receivables are recorded in the Consolidated Statements of Earnings and included in net investment income.

Investment properties are real estate held to earn rental income or for capital appreciation. Investment properties are initially measured at cost and subsequently carried at fair value on the Consolidated Balance Sheets. All changes in fair value are recorded as net investment income in the Consolidated Statements of Earnings. Properties held to earn rental income or for capital appreciation that have an insignificant portion that is owner occupied or where there is no intent to occupy on a long-term basis are classified as investment properties. Properties that do not meet these criteria are classified as owner occupied properties. Property that is leased that would otherwise be classified as investment property if owned by the Company is also included within investment properties.

2. Basis of Presentation and Summary of Accounting Policies (cont'd)

Fair Value Measurement

Financial instrument carrying values necessarily reflect the prevailing market liquidity and the liquidity premiums embedded within the market pricing methods that the Company relies upon.

Fair value movement on the assets supporting insurance contract liabilities is a major factor in the movement of insurance contract liabilities. Changes in the fair value of bonds designated or classified as fair value through profit or loss that support insurance and investment contract liabilities are largely offset by corresponding changes in the fair value of liabilities except when the bond has been deemed impaired.

The following is a description of the methodologies used to value instruments carried at fair value:

Bonds – Fair Value Through Profit or Loss and Available-for-Sale

Fair values for bonds classified as fair value through profit or loss or available-for-sale are determined with reference to quoted market bid prices primarily provided by third-party independent pricing sources. Where prices are not quoted in a normally active market, fair values are determined by valuation models. The Company maximizes the use of observable inputs when measuring fair value. The Company obtains quoted prices in active markets, when available, for identical assets at the balance sheet date to measure bonds at fair value in its fair value through profit or loss and available-for-sale portfolios.

The Company estimates the fair value of bonds not traded in active markets by referring to actively traded securities with similar attributes, dealer quotations, matrix pricing methodology, discounted cash flow analyses and/or internal valuation models. This methodology considers such factors as the issuer's industry, the security's rating, term, coupon rate and position in the capital structure of the issuer, as well as, yield curves, credit curves, prepayment rates and other relevant factors. For bonds that are not traded in active markets, valuations are adjusted to reflect illiquidity, and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

Bonds and Mortgages – Loans and Receivables

For disclosure purposes only, fair values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates. Valuation inputs typically include benchmark yields and risk-adjusted spreads based on current lending activities and market activity.

Stocks – Fair Value Through Profit or Loss and Available-for-Sale

Fair values for public stocks are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows. The Company maximizes the use of observable inputs when measuring fair value. The Company obtains quoted prices in active markets, when available, for identical assets at the balance sheet date to measure stocks at fair value in its fair value through profit or loss and available-for-sale portfolios.

Investment Properties

Fair values for investment properties are determined using independent qualified appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals. The determination of the fair value of investment property requires the use of estimates including future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market conditions. Investment property under construction is valued at fair value if such values can be reliably determined; otherwise they are recorded at cost.

Impairment

Investments are reviewed regularly on an individual basis to determine impairment status. The Company considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults, and delinquency in payments of interest or principal.

Investments are deemed to be impaired when there is objective evidence that timely collection of future cash flows can no longer be reliably estimated. The fair value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors including the remaining term to maturity and liquidity of the asset; however, market price is taken into consideration when evaluating impairment.

For impaired mortgages and bonds classified as loans and receivables, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value. For impaired available-for-sale bonds, recorded at fair value, the accumulated loss recorded in accumulated other comprehensive income is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. All gains and losses on bonds classified or designated as fair value through profit or loss are already recorded in net investment income; therefore a reduction due to impairment of these assets will be recorded in net investment income. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

Securities Lending

The Company engages in securities lending through its securities custodians as lending agents. Loaned securities are not derecognized, and continue to be reported within invested assets, as the Company retains substantial risks and rewards and economic benefits related to the loaned securities.

(b) Transaction Costs

Transaction costs are expensed as incurred for financial instruments classified as fair value through profit or loss. Transaction costs for financial assets classified as available-for-sale or loans and receivables are added to the value of the instrument at acquisition and taken into net earnings using the effective interest rate method. Transaction costs for financial liabilities classified as other than fair value through profit or loss are included in the value of the instrument issued and taken into net earnings using the effective interest rate method.

(c) Cash and Cash Equivalents

Cash and cash equivalents comprise cash, current operating accounts, overnight bank and term deposits with maturities of three months or less held for the purpose of meeting short-term cash requirements. Net payments in transit and overdraft bank balances are included in other liabilities. The carrying value of cash and cash equivalents approximates their fair value.

(d) Trading Account Assets

Trading account assets consist of investments in sponsored funds, open ended investment companies and sponsored unit-trusts in Europe, which are carried at fair value based on the net asset value of these funds. Investments in these assets are included in other assets on the Consolidated Balance Sheets with realized and unrealized gains and losses reported in the Consolidated Statements of Earnings.

(e) Debentures and Other Debt Instruments and Capital Trust Securities

Debentures and other debt instruments and capital trust securities are initially recorded on the Consolidated Balance Sheets at fair value and subsequently carried at amortized cost using the effective interest rate method with amortization expense recorded in financing charges in the Consolidated Statements of Earnings. These liabilities are derecognized when the obligation is cancelled or redeemed.

(f) Other Assets and Other Liabilities

Other assets, which include prepaid expenses, deferred acquisition costs and miscellaneous other assets, are measured at amortized cost. Other liabilities, which include, deferred income reserves and bank overdraft, are measured at amortized cost. Pension and other post-employment benefits also included within other assets and other liabilities are measured in accordance with IAS 19, *Employee Benefits*.

(g) Derivative Financial Instruments

The Company uses derivative products as risk management instruments to hedge or manage asset, liability and capital positions, including revenues. The Company's policy guidelines prohibit the use of derivative instruments for speculative trading purposes.

The Company includes disclosure of the maximum credit risk, future credit exposure, credit risk equivalent and risk weighted equivalent in note 30 as prescribed by the Office of the Superintendent of Financial Institutions Canada.

All derivatives including those that are embedded in financial and non-financial contracts that are not closely related to the host contracts are recorded at fair value on the Consolidated Balance Sheets. The method of recognizing unrealized and realized fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives that are not designated as hedging instruments, unrealized and realized gains and losses are recorded in net investment income on the Consolidated Statements of Earnings. For derivatives designated as hedging instruments, unrealized and realized gains and losses are recognized according to the nature of the hedged item.

Derivatives are valued using market transactions and other market evidence whenever possible, including market based inputs to models, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value a derivative depends on the contractual terms of, and specific risks inherent in, the instrument, as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs.

To qualify for hedge accounting, the relationship between the hedged item and the hedging instrument must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, the relationship does not qualify for hedge accounting treatment and both the hedged item and the hedging instrument are reported independently as if there was no hedging relationship.

Where a hedging relationship exists, the Company documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking derivatives that are used in hedging transactions to specific assets and liabilities on the Consolidated Balance Sheets or to specific firm commitments or forecasted transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. Hedge effectiveness is reviewed quarterly through correlation testing. Hedge accounting is discontinued when the hedging no longer qualifies for hedge accounting.

Derivatives not designated as hedges for accounting purposes

For derivative investments not designated as accounting hedges, changes in fair value are recorded in net investment income.

Fair value hedges

For fair value hedges, changes in fair value of both the hedging instrument and the hedged risk are recorded in net investment income and consequently any ineffective portion of the hedge is recorded immediately in net investment income.

The Company currently uses interest rate swaps designated as fair value hedges.

Cash flow hedges

For cash flow hedges, the effective portion of the changes in fair value of the hedging instrument is recorded in the same manner as the hedged item in other comprehensive income while the ineffective portion is recognized immediately in net investment income. Gains and losses that accumulate in other comprehensive income are recorded in net investment income in the same period the hedged item affects net earnings. Gains and losses on cash flow hedges are immediately reclassified from other comprehensive income to net investment income if and when it is probable that a forecasted transaction is no longer expected to occur.

The Company currently uses interest rate swaps and cross-currency swaps designated as cash flow hedges.

Net investment hedges

For net investment hedges the effective portion of changes in the fair value of the hedging instrument are recorded in other comprehensive income while the ineffective portion is recognized immediately in net investment income. The unrealized foreign exchange gains (losses) on the instruments are recorded within accumulated other comprehensive income and will be reclassified into net earnings when the instruments are derecognized.

The Company currently has instruments designated as net investment hedges.

(h) Embedded Derivatives

An embedded derivative is a component of a host contract that modifies the cash flows of the host contract in a manner similar to a derivative, according to a specified interest rate, financial instrument price, foreign exchange rate, underlying index or other variable. Embedded derivatives are treated as separate contracts and are recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract and the host contract is not itself recorded at fair value through the Consolidated Statements of Earnings. Embedded derivatives that meet the definition of an insurance contract are accounted for and measured as an insurance contract.

(i) Foreign Currency Translation

The Company operates with multiple functional currencies. The Company's consolidated financial statements are presented in Canadian dollars as this presentation is most meaningful to financial statement users. For those subsidiaries with different functional currencies, exchange rate differences arising from the translation of monetary items that form part of the net investment in the foreign operation are recorded in unrealized foreign exchange gains (losses) on translation of foreign operations in other comprehensive income.

For the purpose of presenting consolidated financial statements, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all income and expense items are translated at an average of daily rates. Unrealized foreign currency translation gains and losses on translation of the Company's net investment in its foreign operations are presented separately as a component of other comprehensive income. Unrealized gains and losses will be recognized proportionately in net investment income on the Consolidated Statements of Earnings when there has been a disposal of the investment in the foreign operations.

Foreign currency translation gains and losses on foreign currency transactions of the Company are included in net investment income.

(j) Loans to Policyholders

Loans to policyholders are classified as loans and receivables and measured at amortized cost. Loans to policyholders are shown at their unpaid principal balance and are fully secured by the cash surrender values of the policies. Carrying value of loans to policyholders approximates their fair value.

(k) Reinsurance Contracts

The Company, in the normal course of business, is a user of reinsurance in order to limit the potential for losses arising from certain exposures and a provider of reinsurance. Assumed reinsurance refers to the acceptance of certain insurance risks by the Company underwritten by another company. Ceded reinsurance refers to the transfer of insurance risk, along with the respective premiums, to one or more reinsurers who will share the risks. To the extent that assuming reinsurers are unable to meet their obligations, the Company remains liable to its policyholders for the portion reinsured. Consequently, allowances are made for reinsurance contracts which are deemed uncollectible.

Reinsurance contracts are insurance contracts and undergo the classification as described within the Insurance and Investment Contract Liabilities section of this note. Assumed reinsurance premiums, commissions and claim settlements, as well as the reinsurance assets associated with insurance and investment contracts, are accounted for in accordance with the terms and conditions of the underlying reinsurance contract. Reinsurance assets are reviewed for impairment on a regular basis for any events

that may trigger impairment. The Company considers various factors in the impairment evaluation process, including but not limited to, collectability of amounts due under the terms of the contract. The carrying amount of a reinsurance asset is adjusted through an allowance account with any impairment loss being recorded in the Consolidated Statements of Earnings.

Any gains or losses on buying reinsurance are recognized in the Consolidated Statements of Earnings immediately at the date of purchase in accordance with the Canadian Asset Liability Method.

Assets and liabilities related to reinsurance are reported on a gross basis in the Consolidated Balance Sheets. The amount of liabilities ceded to reinsurers is estimated in a manner consistent with the claim liability associated with reinsured risks.

(l) Funds Held by Ceding Insurers/Funds Held Under Reinsurance Contracts

On the asset side, funds held by ceding insurers are assets that would normally be paid to the Company but are withheld by the cedant to reduce potential credit risk. Under certain forms of reinsurance contracts it is customary for the cedant to retain amounts on a funds withheld basis supporting the insurance or investment contract liabilities ceded. For the funds withheld assets where the underlying asset portfolio is managed by the Company, the credit risk is retained by the Company. The funds withheld balance where the Company assumes the credit risk is measured at the fair value of the underlying asset portfolio with the change in fair value recorded in net investment income. See note 6 for funds held by ceding insurers that are managed by the Company. Other funds held by ceding insurers are general obligations of the cedant and serve as collateral for insurance contract liabilities assumed from cedants. Funds withheld assets on these contacts do not have fixed maturity dates, their release generally being dependent on the run-off of the corresponding insurance contract liabilities.

On the liability side, funds held under reinsurance contracts consist mainly of amounts retained by the Company from ceded business written on a funds withheld basis. The Company withholds assets related to ceded insurance contract liabilities in order to reduce credit risk.

(m) Business Combinations, Goodwill and Intangible Assets

Business combinations are accounted for using the acquisition method. The Company identifies and classifies, in accordance with the Company's accounting policies, all assets acquired and liabilities assumed as at the acquisition date. Goodwill represents the excess of purchase consideration over the fair value of net assets of the acquired subsidiaries of the Company. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

Intangible assets represent finite life and indefinite life intangible assets of acquired subsidiaries of the Company and software acquired or internally developed by the Company. Finite life intangible assets include the value of technology/software, customer contracts and distribution channels. These finite life intangible assets are amortized over their estimated useful lives, typically ranging between 5 and 30 years.

Indefinite life intangible assets include brands and trademarks, customer contracts and the shareholders' portion of acquired future participating account profits. Amounts are classified as indefinite life intangible assets when based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Company. The identification of indefinite life intangible assets is made by reference to relevant factors such as product life cycles, potential obsolescence, industry stability and competitive position. Following initial recognition, indefinite life intangible assets are measured at cost less accumulated impairment losses.

Impairment Testing

Goodwill and indefinite life intangible assets are tested for impairment annually or more frequently if events indicate that impairment may have occurred. Intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal. In the event that certain conditions have been met, the Company would be required to reverse the impairment charge or a portion thereof.

Goodwill and indefinite life intangible assets have been allocated to cash generating units, representing the lowest level that the assets are monitored for internal reporting purposes. Goodwill and indefinite life intangible assets are tested for impairment by comparing the carrying value of each cash generating unit grouping containing the assets to its recoverable amount. An impairment loss is recognized for the amount by which the asset carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of the asset's fair value less costs of disposal and value-in-use.

Finite life intangible assets are reviewed at least annually to determine if there are indicators of impairment and assess whether the amortization period and method are appropriate.

(n) Revenue Recognition

Premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due and collection is reasonably assured.

Interest income on bonds and mortgages is recognized and accrued using the effective yield method.

Dividend income is recognized when the right to receive payment is established. This is the ex-dividend date for listed stocks, and usually the notification date or date when the shareholders have approved the dividend for private equity instruments.

Investment property income includes rents earned from tenants under lease agreements and property tax and operating cost recoveries. Rental income leases with contractual rent increases and rent-free periods are recognized on a straight-line basis over the term of the lease.

2. Basis of Presentation and Summary of Accounting Policies (cont'd)

Fee and other income primarily includes fees earned from management of segregated fund assets, proprietary mutual funds assets, fees earned on administrative services only Group health contracts, and fees earned from management services. Fee and other income is recognized when services are rendered and the amount can be reasonably estimated.

The Company has sub-advisor arrangements where the Company retains the primary obligation with the client; as a result, fee income earned is reported on a gross basis with the corresponding sub-advisor expense recorded in operating and administrative expenses.

(o) Owner Occupied Properties and Fixed Assets

Property held for own use and fixed assets are carried at cost less accumulated depreciation and impairments. Depreciation is charged to write-off the cost of assets, over their estimated useful lives, using the straight-line method, on the following bases:

Owner occupied properties	15 – 20 years
Furniture and fixtures	5 – 10 years
Other fixed assets	3 – 10 years

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted if necessary.

(p) Deferred Acquisition Costs

Included in other assets are deferred acquisition costs. These are recognized as assets if the costs are incremental and incurred due to the contract being issued and are primarily amortized on a straight-line basis over the policy term, not to exceed 20 years.

(q) Segregated Funds

Segregated funds assets and liabilities arise from contracts where all financial risks associated with the related assets are borne by policyholders and are presented separately in the Consolidated Balance Sheets. The assets and liabilities are set equal to the fair value of the underlying asset portfolio. Investment income and changes in fair value of the segregated fund assets are offset by a corresponding change in the segregated fund liabilities.

(r) Insurance and Investment Contract Liabilities

Contract Classification

When significant insurance risk exists, the Company's products are classified at contract inception as insurance contracts, in accordance with IFRS 4, *Insurance Contracts* (IFRS 4). Significant insurance risk exists when the Company agrees to compensate policyholders or beneficiaries of the contract for specified uncertain future events that adversely affect the policyholder and whose amount and timing is unknown. Refer to note 15 for discussion of insurance risk.

In the absence of significant insurance risk, the contract is classified as an investment contract or service contract. Investment contracts with discretionary participating features are accounted for in accordance with IFRS 4 and investment contracts without discretionary participating features are accounted for in accordance with IAS 39, *Financial Instruments: Recognition & Measurement*. The Company has not classified any contracts as investment contracts with discretionary participating features.

Investment contracts may be reclassified as insurance contracts after inception if insurance risk becomes significant. A contract that is classified as an insurance contract at contract inception remains as such until all rights and obligations under the contract are extinguished or expire.

Investment contracts are contracts that carry financial risk, which is the risk of a possible future change in one or more of the following: interest rate, commodity price, foreign exchange rate, or credit rating. Refer to note 7 for discussion of Financial Instruments Risk Management.

Measurement

Insurance contract liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with the Company. The Appointed Actuaries of the Company's subsidiary companies are responsible for determining the amount of the liabilities to make appropriate provisions for the Company's obligations to policyholders. The Appointed Actuaries determine the liabilities for insurance contracts using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of mis-estimation and/for future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Investment contract liabilities are measured at fair value determined using discounted cash flows utilizing the yield curves of financial instruments with similar cash flow characteristics.

(s) Deferred Income Reserves

Included in other liabilities are deferred income reserves relating to investment contracts. These are amortized on a straight-line basis to recognize the initial policy fees over the policy term, not to exceed 20 years.

(t) Income Taxes

The income tax expense for the period represents the sum of current income tax and deferred income tax. Income tax is recognized as an expense or income in profit or loss except to the extent that it relates to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the income tax is also recognized outside profit or loss.

Current Income Tax

Current income tax is based on taxable income for the year. Current income tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities using the tax rates that have been enacted or substantively enacted at the balance sheet date. Current income tax assets and current income tax liabilities are offset if a legally enforceable right exists to offset the recognized amounts and the entity intends either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

A provision for tax uncertainties which meet the probable threshold for recognition is measured based on the probability weighted average approach.

Deferred Income Tax

Deferred income tax is the tax expected to be payable or recoverable on differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income and is accounted for using the balance sheet liability method. Deferred income tax liabilities are generally recognized for all taxable temporary differences and deferred income tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses and carryforwards can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to net current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, except where the group controls the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

(u) Policyholder Benefits

Policyholder benefits include benefits and claims on life insurance contracts, maturity payments, annuity payments and surrenders. Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year and settlement of claims. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

(v) Repurchase Agreements

The Company accounts for certain forward settling to be announced "TBA" security transactions as derivatives as the Company does not regularly accept delivery of such securities when issued.

(w) Pension Plans and Other Post-Employment Benefits

The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company's subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents.

The present value of the defined benefit obligations and the related current service cost is determined using the projected unit credit method (note 24). Pension plan assets are recorded at fair value.

For the defined benefit plans of the Company's subsidiaries, service costs and net interest costs are recognized in the Consolidated Statements of Earnings. Service costs include current service cost, administration expenses, past service costs and the impact of curtailments and settlements. To determine the net interest costs (income) recognized in the Consolidated Statements of Earnings, the Company's subsidiaries apply a discount rate to the net benefit liability (asset), where the discount rate is determined by reference to market yields at the beginning of the year on high quality corporate bonds.

For the defined benefit plans of the Company's subsidiaries, re-measurements of the net defined benefit liability (asset) due to asset returns less (greater) than interest income, actuarial losses (gains) and changes in the asset ceiling are recognized immediately in the Consolidated Statements of Comprehensive Income.

The Company's subsidiaries also maintain defined contribution pension plans for certain employees and advisors. For the defined contribution plans of the Company's subsidiaries, the current service costs are recognized in the Consolidated Statements of Earnings.

2. Basis of Presentation and Summary of Accounting Policies (cont'd)

(x) Share Capital and Surplus

Financial instruments issued by the Company are classified as share capital if they represent a residual interest in the assets of the Company. Preferred share capital is classified as equity if it is non-redeemable, or retractable only at the Company's option and any dividends are discretionary. Incremental costs that are directly attributable to the issue of share capital are recognized as a deduction from equity, net of income tax.

Contributed surplus represents the vesting expense on unexercised equity instruments under share-based payment plans.

Accumulated other comprehensive income (loss) represents the total of the unrealized foreign exchange gains (losses) on translation of foreign operations, the unrealized foreign exchange gains (losses) on euro debt designated as a hedge of the net investment of foreign operations, the unrealized gains (losses) on available-for-sale assets, the unrealized gains (losses) on cash flow hedges, and the remeasurements on defined benefit pension and other post-employment benefit plans.

Non-controlling interests in subsidiaries represents the proportion of equity that is attributable to minority shareholders.

Participating account surplus in subsidiaries represents the proportion of equity attributable to the participating account of the Company's subsidiaries.

(y) Share-Based Payments

The Company provides share-based compensation to certain employees and Directors of the Company and its subsidiaries.

The Company follows the fair value based method of accounting for the valuation of compensation expense for shares and share options granted to employees under its stock option plans (note 23). This share-based payment expense is recognized in operating and administrative expenses in the Consolidated Statements of Earnings and as an increase to contributed surplus over the vesting period of the granted options. When options are exercised, the proceeds received, along with the amount in contributed surplus, are transferred to share capital.

The Company and certain of its affiliates have established Deferred Share Unit Plans (DSU Plans) in which Directors of the Company participate. Units issued under the DSU Plans vest when granted. The Company recognizes an increase in operating and administrative expenses for the units granted under the DSU Plans. The Company recognizes a liability for units granted under the DSU Plans which is re-measured at each reporting period based on the market value of the Company's common shares.

Certain employees of the Company are entitled to participate in the Performance Share Unit Plan (PSU Plan). Units issued under the Performance Share Unit Plan vest over a three year period. The Company uses the fair value method to recognize compensation expense for the units granted under the plan with a corresponding increase in the liability based on the market value of the Company's common shares.

The Company has an Employee Share Ownership Program (ESOP) where, subject to certain conditions being met, the Company will match contributions up to a maximum amount. The Company's contributions are expensed within operating and administrative expenses as incurred.

From January 1, 2014 to March 31, 2014, share-based payment awards for restricted Class B shares and options on Class B shares granted to employees under the Putnam Investments, LLC Equity Incentive Plan and for awards issued under PanAgora's Management Equity Plan were accounted for as liabilities. As of March 31, 2014 (the "Modification date"), the Company modified these plans. As a result, these plans are now classified as equity-settled share-based payment transactions wherein compensation expense is measured by reference to the fair value of the equity instruments at grant date (or Modification date for those grants existing at such date) with a corresponding increase to equity. On the Modification date, the Company reclassified the share-based liability into equity.

(z) Earnings Per Common Share

Earnings per common share is calculated using net earnings after preferred share dividends and the weighted average number of common shares outstanding. Diluted earnings per share is calculated by adjusting common shareholders' net earnings and the weighted average number of common shares outstanding for the effects of all potential dilutive common shares assuming that all convertible instruments are converted and outstanding options are exercised.

(aa) Leases

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, where the Company is the lessee, are charged to net earnings over the period of use.

Where the Company is the lessor under an operating lease for its investment property, the assets subject to the lease arrangement are presented within the Consolidated Balance Sheets. Income from these leases is recognized in the Consolidated Statements of Earnings on a straight-line basis over the lease term.

Investments in a lease that transfers substantially all the risks and rewards of ownership to the lessee are classified as a finance lease. The Company is the lessor under a finance lease and the investment is recognized as a receivable at an amount equal to the net investment in the lease, which is represented as the present value of the minimum lease payments due from the lessee and is presented within the Consolidated Balance Sheets. Payments received from the lessee are apportioned between the recognition of finance lease income and the reduction of the finance lease receivable. Income from the finance leases is recognized in the Consolidated Statements of Earnings at a constant periodic rate of return on the Company's net investment in the finance lease.

(ab) Operating Segments

Operating segments have been identified based on internal reports that are regularly reviewed by the Company's Chief Executive Officer to allocate resources and assess performance of segments. The Company's reportable operating segments are categorized by geographic region and include Canada, the United States and Europe. Great-West Financial and Putnam are reported in the United States segment. The Europe segment comprises Insurance & Annuities and Reinsurance. The Lifeco Corporate segment represents activities and transactions that are not directly attributable to the measurement of the operating segments of the Company.

(ac) Future Accounting Policies

IFRS that have been issued by the IASB and could impact the Company are as follows:

New Standard	Summary of Future Changes
IFRS 9 – *Financial Instruments*	In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments* to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The standard provides changes to financial instruments accounting for the following: • classification and measurement of financial instruments based on a business model approach for managing financial assets and the contractual cash flow characteristics of the financial asset; • impairment based on an expected loss model; and • hedge accounting that incorporates the risk management practices of an entity. The standard is effective January 1, 2018. The Company is evaluating the impact of the adoption of this standard.
IFRS 15 – *Revenue from Contracts with Customers*	In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which provides a single revenue recognition standard to align the financial reporting of revenue from contracts with customers and related costs. The revenue arising from insurance contracts, leases and financial instruments are not required to apply the revenue recognition requirements in IFRS 15. A company would recognize revenue when it transfers goods or services to a customer in the amount of consideration the company expects to receive from the customer. In September 2015, the IASB issued an amendment to IFRS 15 providing a deferral of one year of the effective date of the standard, from January 1, 2017 to January 1, 2018. The Company is evaluating the impact of the adoption of this standard.
IFRS 16 – *Leases*	In January 2016, the IASB issued IFRS 16, *Leases*, which introduces new guidance for identifying leases as well as a new right-of-use accounting model for lessees, replacing the operating and finance lease accounting models that currently exist. The new accounting model will generally require all lessees to recognize lease assets and liabilities on the balance sheet, initially measured at the present value of unavoidable lease payments for all leases with a maximum possible term of more than 12 months. In contrast to the significant changes for lessees, the new standard will retain many key aspects of the current lessor accounting model. The standard is effective January 1, 2019. The Company is evaluating the impact of the adoption of this standard.
Annual Improvements 2012 – 2014 Cycle	In September 2014, the IASB issued *Annual Improvements 2012 – 2014 Cycle* as part of its ongoing process to efficiently deal with non-urgent narrow scope amendments to IFRS. Five amendments were included in this issue relating to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7, *Financial Instruments: Disclosures*, IFRS 1, *First-time Adoption of International Financial Reporting Standards,* IAS 19, *Employee Benefits* and IAS 34 *Interim Financial Reporting*. The amendments are effective January 1, 2016. Adoption of these amendments is not expected to have a significant impact on the Company's consolidated financial statements.
IAS 16 – *Property, Plant and Equipment* and IAS 38 – *Intangible Assets*	In May 2014, the IASB issued amendments to IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangible Assets* that the use of revenue-based methods to calculate the depreciation of property, plant and equipment and intangible assets is not appropriate. The amendments are effective January 1, 2016. Adoption of these amendments is not expected to have a significant impact on the Company's consolidated financial statements.
IFRS 10 – *Consolidated Financial Statements* and IAS 28 – *Investments in Associates and Joint Ventures*	In September 2014, the IASB issued amendments to IFRS 10, *Consolidated Financial Statements* and IAS 28, *Investments in Associates and Joint Ventures* to clarify that any gain or loss recognized in a transaction involving an associate or joint venture depends on whether the assets sold or contributed constitute a business as defined under IFRS 3, *Business Combinations*. In December 2014, the IASB issued additional amendments to IFRS 10 and IAS 28 clarifying the accounting requirements for investment entities. The amendments are effective January 1, 2016. Adoption of these amendments is not expected to have a significant impact on the Company's consolidated financial statements.
IFRS 11 – *Joint Arrangements*	In May 2014, the IASB issued amendments to IFRS 11, *Joint Arrangements* on the accounting for acquisitions of an interest in a joint operation when the operations constitute a business as defined under IFRS 3, *Business Combinations*. The amendments are effective January 1, 2016. Adoption of these amendments is not expected to have a significant impact on the Company's consolidated financial statements.
IAS 1 – *Presentation of Financial Statements*	In December 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* to add clarity and flexibility to financial statement presentation, ensuring entities use judgment in applying materiality, and presentation of financial statements and structure of the notes. The amendments are effective January 1, 2016. Adoption of these amendments is not expected to have a significant impact on the Company's consolidated financial statements.

3. Business Acquisitions

(a) J.P. Morgan Retirement Plan Services

On August 29, 2014, the Company, through its wholly owned subsidiary Great-West Financial, completed the acquisition of all of the voting equity interests in the J.P. Morgan Retirement Plan Services (RPS) large-market recordkeeping business. The Company disclosed the allocation of the purchase price to the amounts of assets acquired, goodwill and liabilities assumed in note 3 to the December 31, 2014 consolidated annual audited financial statements. During the first quarter of 2015 the Company finalized the purchase price allocation with no adjustments from those balances reported as at December 31, 2014.

(b) Legal & General International (Ireland) Limited

On July 1, 2015, the Company, through its indirect wholly owned subsidiary The Canada Life Group (UK) Ltd., acquired Legal & General International (Ireland) Limited (LGII), a provider of investment and wealth management solutions for high net worth individuals primarily in the United Kingdom.

At the date of acquisition, the Company recognized $5,465 of unit-linked funds within investments on account of segregated fund policyholders and investment and insurance contracts on account of segregated fund policyholder liabilities (note 14) on the Company's balance sheet.

The revenue and net earnings from LGII, along with the goodwill from the acquisition, was not significant.

4. Cash and Cash Equivalents

Cash and cash equivalents include amounts held at the Lifeco holding company level and amounts held in Lifeco's consolidated subsidiary companies.

	2015	2014
Cash	$ 1,792	$ 1,588
Short-term deposits	1,021	910
Total	**$ 2,813**	$ 2,498

At December 31, 2015 cash of $159 was restricted for use by the Company ($142 at December 31, 2014) in respect of cash held in trust for reinsurance agreements or with regulatory authorities, client monies held by brokers and cash held in escrow.

5. Portfolio Investments

(a) Carrying values and estimated fair values of portfolio investments are as follows:

	2015		2014	
	Carrying value	**Fair value**	Carrying value	Fair value
Bonds				
Designated fair value through profit or loss [(1)(3)]	**$ 83,688**	**$ 83,688**	$ 77,714	$ 77,714
Classified fair value through profit or loss [(1)(3)]	**2,815**	**2,815**	2,286	2,286
Available-for-sale	**11,535**	**11,535**	9,990	9,990
Loans and receivables	**16,905**	**18,253**	13,178	14,659
	114,943	**116,291**	103,168	104,649
Mortgage loans				
Residential	**7,783**	**8,148**	7,238	7,653
Commercial	**14,238**	**15,298**	13,308	14,514
	22,021	**23,446**	20,546	22,167
Stocks				
Designated fair value through profit or loss [(1)]	**6,647**	**6,647**	6,617	6,617
Available-for-sale	**57**	**57**	50	50
Available-for-sale, at cost [(2)]	**534**	**N/A**	560	N/A
Equity method	**635**	**601**	593	664
	7,873	**7,305**	7,820	7,331
Investment properties	**5,237**	**5,237**	4,613	4,613
Total	**$ 150,074**	**$ 152,279**	$ 136,147	$ 138,760

(1) A financial asset is designated as fair value through profit or loss on initial recognition if it eliminates or significantly reduces an accounting mismatch. Changes in the fair value of financial assets designated as fair value through profit or loss are generally offset by changes in insurance contract liabilities, since the measurement of insurance contract liabilities is determined with reference to the assets supporting the liabilities. A financial asset is classified as fair value through profit or loss on initial recognition if it is part of a portfolio that is actively traded for the purpose of earning investment income.

(2) Fair value cannot be reliably measured, therefore the investments are held at cost and excluded from the total fair value amount presented.

(3) During the year, the Company reclassified $119 of bonds from designated fair value through profit or loss to classified fair value through profit or loss at December 31, 2014 to conform to the current year's presentation.

(b) Carrying value of bonds and mortgages by term to maturity are as follows:

	2015			
	Term to maturity			
	1 year or less	**Over 1–5 years**	**Over 5 years**	**Total**
Bonds	**$ 11,679**	**$ 25,784**	**$ 77,113**	**$ 114,576**
Mortgage loans	**1,358**	**6,037**	**14,598**	**21,993**
Total	**$ 13,037**	**$ 31,821**	**$ 91,711**	**$ 136,569**

	2014			
	Term to maturity			
	1 year or less	Over 1–5 years	Over 5 years	Total
Bonds	$ 10,817	$ 19,299	$ 72,687	$ 102,803
Mortgage loans	1,373	6,532	12,628	20,533
Total	$ 12,190	$ 25,831	$ 85,315	$ 123,336

The above excludes the carrying value of impaired bonds and mortgage loans, as the ultimate timing of collectability is uncertain.

5. Portfolio Investments (cont'd)

(c) Certain stocks where equity method earnings are computed are discussed below:

(i) Stocks include the Company's investment, held through Great-West Life, in an affiliated company, IGM, a member of the Power Financial group of companies, over which it exerts significant influence but does not control. The Company's proportionate share of IGM's earnings is recorded in net investment income in the Consolidated Statements of Earnings. The Company owns 9,203,174 shares of IGM at December 31, 2015 (9,202,886 at December 31, 2014) representing a 3.73% ownership interest (3.65% at December 31, 2014). The Company uses the equity method to account for its investment in IGM as it exercises significant influence. Significant influence arises from several factors, including, but not limited to the following: common control of the Company and IGM by Power Financial, shared representation on the Boards of Directors of the Company and IGM, interchange of managerial personnel, and certain shared strategic alliances, significant intercompany transactions and services agreements that influence the financial and operating policies of both companies.

	2015	2014
Carrying value, beginning of year	**$ 356**	$ 350
Equity method share of IGM earnings	**23**	26
Dividends received	**(21)**	(20)
Carrying value, end of year	**$ 358**	$ 356
Share of equity, end of year	**$ 180**	$ 178
Fair value, end of year	**$ 325**	$ 426

The Company and IGM both have a year-end date of December 31. The Company's year-end results are approved and reported before IGM publicly reports its financial result; therefore, the Company reports IGM's financial information by estimating the amount of earnings attributable to the Company, based on prior quarter information as well as consensus expectations, to complete equity method accounting. The difference between actual and estimated results is reflected in the subsequent quarter and is not material to the Company's financial statements.

IGM's financial information as at December 31, 2015 can be obtained in its publicly available information.

At December 31, 2015 and 2014 IGM owned 39,737,388 common shares of the Company.

(ii) Stocks include the Company's 30.43% investment (30.43% at December 31, 2014), held through Irish Life Group Limited (Irish Life), in Allianz Ireland, an unlisted general insurance company operating in Ireland.

	2015	2014
Carrying value, beginning of year	**$ 191**	$ 217
Equity method share of Allianz comprehensive income	**18**	7
Dividends received	**(4)**	(24)
Changes in foreign exchange rate	**13**	(9)
Carrying value, end of year	**$ 218**	$ 191
Share of equity, end of year	**$ 161**	$ 140

The fair value of Allianz Ireland as at December 31, 2015 and December 31, 2014 is not readily available as it is not publicly traded.

The Company and Allianz Ireland both have a year-end date of December 31. The Company's year-end financial results are approved and reported before Allianz Ireland reports its financial results; therefore, the Company reports Allianz Ireland's financial information by estimating the amount of income attributable to the Company, based on prior quarter information, to complete equity method accounting. The difference between actual and estimated results is reflected in the subsequent quarter and is not material to the Company's financial statements.

(d) Included in portfolio investments are the following:

(i) Carrying amount of impaired investments

	2015	2014
Impaired amounts by classification		
Fair value through profit or loss	**$ 355**	$ 355
Available-for-sale	**11**	14
Loans and receivables	**30**	15
Total	**$ 396**	$ 384

The carrying amount of impaired investments includes bonds, stocks and mortgage loans. The above carrying values for loans and receivables are net of allowances of $20 at December 31, 2015 and $18 at December 31, 2014.

(ii) The allowance for credit losses and changes in the allowance for credit losses related to investments classified as loans and receivables are as follows:

	2015			2014		
	Bonds	Mortgage loans	Total	Bonds	Mortgage loans	Total
Balance, beginning of year	$ –	$ 18	$ 18	$ –	$ 25	$ 25
Net provision for credit losses – in year	–	–	–	–	8	8
Write-offs, net of recoveries	–	–	–	–	(15)	(15)
Other (including foreign exchange rate changes)	–	2	2	–	–	–
Balance, end of year	$ –	$ 20	$ 20	$ –	$ 18	$ 18

The allowance for credit losses is supplemented by the provision for future credit losses included in insurance contract liabilities.

(e) Net investment income comprises the following:

	2015					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	$ 4,252	$ 965	$ 279	$ 356	$ 416	$ 6,268
Net realized gains						
Available-for-sale	104	–	2	–	–	106
Other classifications	10	97	–	–	–	107
Other income and expenses	–	–	–	(100)	(110)	(210)
	4,366	1,062	281	256	306	6,271
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	13	–	–	–	–	13
Designated fair value through profit or loss	(2,000)	–	(409)	–	137	(2,272)
Recorded at fair value through profit or loss	–	–	–	249	–	249
	(1,987)	–	(409)	249	137	(2,010)
Total	$ 2,379	$ 1,062	$ (128)	$ 505	$ 443	$ 4,261

	2014					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	$ 4,108	$ 948	$ 238	$ 319	$ 487	$ 6,100
Net realized gains						
Available-for-sale	47	–	11	–	–	58
Other classifications	18	25	–	–	–	43
Net allowances for credit losses on loans and receivables	(9)	(8)	–	–	–	(17)
Other income and expenses	–	–	–	(75)	(99)	(174)
	4,164	965	249	244	388	6,010
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	72	–	–	–	–	72
Designated fair value through profit or loss	6,533	–	480	–	180	7,193
Recorded at fair value through profit or loss	–	–	–	262	–	262
	6,605	–	480	262	180	7,527
Total	$ 10,769	$ 965	$ 729	$ 506	$ 568	$ 13,537

5. Portfolio Investments (cont'd)

Investment income earned comprises income from investments that are classified as available-for-sale, loans and receivables and investments classified or designated as fair value through profit or loss. Investment income from bonds and mortgages includes interest income and premium and discount amortization. Income from stocks includes dividends and equity income from the investment in IGM and Allianz Ireland. Investment properties income includes rental income earned on investment properties, ground rent income earned on leased and sub-leased land, fee recoveries, lease cancellation income, and interest and other investment income earned on investment properties. Other income includes policyholder loan income, foreign exchange gains and losses, income earned from derivative financial instruments and other miscellaneous income.

(f) The carrying value of investment properties and changes in the carrying value of investment properties are as follows:

	2015	2014
Balance, beginning of year	**$ 4,613**	$ 4,288
Additions	**278**	127
Change in fair value through profit or loss	**249**	262
Disposals	**(282)**	(98)
Transferred to owner occupied properties	**–**	(13)
Foreign exchange rate changes	**379**	56
Other	**–**	(9)
Balance, end of year	**$ 5,237**	$ 4,613

(g) Transferred Financial Assets

The Company engages in securities lending to generate additional income. The Company's securities custodians are used as lending agents. Collateral, which exceeds the fair value of the loaned securities, is deposited by the borrower with the Company's lending agent and maintained by the lending agent until the underlying security has been returned. The fair value of the loaned securities is monitored on a daily basis by the lending agent who obtains or refunds additional collateral as the fair value of the loaned securities fluctuates. There was no cash collateral included in the collateral deposited with the Company's lending agent as of December 31, 2015 ($16 at December 31, 2014). In addition, the securities lending agent indemnifies the Company against borrower risk, meaning that the lending agent agrees contractually to replace securities not returned due to a borrower default. As at December 31, 2015, the Company had loaned securities (which are included in invested assets) with a fair value of $6,833 ($5,890 at December 31, 2014).

6. Funds Held by Ceding Insurers

Included in funds held by ceding insurers of $15,512 at December 31, 2015 ($12,154 at December 31, 2014) are the following agreements.

During 2015, Canada Life Limited, an indirect wholly owned subsidiary of the Company, entered into an agreement with The Equitable Life Assurance Society (Equitable Life) to assume, by way of indemnity reinsurance, the assets and liabilities of the annuity business of Equitable Life totaling $1,620.

During December 2015, an indirect wholly-owned subsidiary of the Company entered into a retrocession agreement to assume a block of investment contract liabilities totaling $1,323 in the form of structured settlements with fixed terms and amounts. The subsidiary has assumed the credit risk on the portfolio of assets, included in funds held by the ceding reinsurer, that back the related investment contract liabilities. The ceding reinsurer has the right to recapture the retrocession transaction if certain conditions are not met.

During 2014, an indirect wholly owned reinsurance subsidiary of the Company entered into an agreement to assume by way of indemnity reinsurance, a block of payout annuities. Under the agreement, the subsidiary is required to put amounts on deposit with the counterparty and the subsidiary has assumed the credit risk on the portfolio of assets included in the amounts on deposit.

During 2008, Canada Life International Re Limited (CLIRE), the Company's indirect wholly owned Irish reinsurance subsidiary, signed an agreement with Standard Life, a U.K.-based provider of life, pension and investment products, to assume by way of indemnity reinsurance, a large block of payout annuities. Under the agreement, CLIRE is required to put amounts on deposit with Standard Life and CLIRE has assumed the credit risk on the portfolio of assets included in the amounts on deposit.

The assets for these agreements are included in funds held by ceding insurers on the Consolidated Balance Sheets. Income and expenses arising from the agreements are included in net investment income on the Consolidated Statements of Earnings.

At December 31, 2015 the Company had amounts on deposit of $13,830 ($10,758 at December 31, 2014) for these four agreements.

The details of the funds on deposit and related credit risk on the funds related to these agreements are as follows:

(a) Carrying values and estimated fair values:

	2015		2014	
	Carrying value	**Fair value**	Carrying value	Fair value
Cash and cash equivalents	**$ 180**	**$ 180**	$ 200	$ 200
Bonds	**13,472**	**13,472**	10,397	10,397
Other assets	**178**	**178**	161	161
Total	**$ 13,830**	**$ 13,830**	$ 10,758	$ 10,758
Supporting:				
Reinsurance liabilities	**13,222**	**13,222**	10,386	10,386
Surplus	**608**	**608**	372	372
Total	**$ 13,830**	**$ 13,830**	$ 10,758	$ 10,758

(b) The following presents the amounts on deposit for funds held by ceding insurers measured at fair value on recurring basis by hierarchy level (note 8):

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**$ 180**	**$ –**	**$ –**	**$ 180**
Bonds	**–**	**13,472**	**–**	**13,472**
Total	**$ 180**	**$ 13,472**	**$ –**	**$ 13,652**

	2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 200	$ –	$ –	$ 200
Bonds	–	10,397	–	10,397
Total	$ 200	$ 10,397	$ –	$ 10,597

6. Funds Held by Ceding Insurers (cont'd)

(c) The following provides details of the carrying value of bonds included in the funds on deposit by issuer and industry sector:

	2015	2014
Bonds issued or guaranteed by:		
Canadian federal government	$ –	$ 49
Provincial, state, and municipal governments	5	16
U.S. Treasury and other U.S. agencies	72	25
Other foreign governments	3,224	1,923
Government related	561	548
Supranationals	195	167
Asset-backed securities	319	260
Residential mortgage-backed securities	117	107
Banks	1,967	1,944
Other financial institutions	1,098	1,087
Basic materials	134	110
Communications	176	168
Consumer products	1,117	862
Industrial products/services	398	174
Natural resources	531	389
Real estate	932	778
Transportation	328	231
Utilities	1,762	1,411
Miscellaneous	512	130
Total long-term bonds	$ 13,448	$ 10,379
Short-term bonds	24	18
Total	$ 13,472	$ 10,397

(d) Asset quality

Bond Portfolio By Credit Rating

	2015	2014
AAA	$ 3,697	$ 2,312
AA	3,405	2,944
A	5,186	4,194
BBB	798	596
BB and lower	386	351
Total	$ 13,472	$ 10,397

7. Financial Instruments Risk Management

The Company has policies relating to the identification, measurement, monitoring, mitigating and controlling of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and equity). The Risk Committee of the Board of Directors is responsible for the oversight of the Company's key risks.

The following sections describe how the Company manages each of these risks.

(a) Credit Risk

Credit risk is the risk of financial loss resulting from the failure of debtors to make payments when due.

The following policies and procedures are in place to manage this risk:

- Investment guidelines are in place that require only the purchase of investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company.
- Investment guidelines specify minimum and maximum limits for each asset class. Credit ratings are determined by recognized external credit rating agencies and/or internal credit review.
- Investment guidelines also specify collateral requirements.
- Portfolios are monitored continuously, and reviewed regularly with the Risk Committee and the Investment Committee of the Board of Directors.
- Credit risk associated with derivative instruments is evaluated quarterly based on conditions that existed at the balance sheet date, using practices that are at least as conservative as those recommended by regulators.
- The Company is exposed to credit risk relating to premiums due from policyholders during the grace period specified by the insurance policy or until the policy is paid up or terminated. Commissions paid to agents and brokers are netted against amounts receivable, if any.
- Reinsurance is placed with counterparties that have a good credit rating, and concentration of credit risk is managed by following policy guidelines set each year by the Board of Directors. Management continuously monitors and performs an assessment of creditworthiness of reinsurers.

(i) Maximum Exposure to Credit Risk

The following summarizes the Company's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	2015	2014
Cash and cash equivalents	$ 2,813	$ 2,498
Bonds		
Fair value through profit or loss	86,503	80,000
Available-for-sale	11,535	9,990
Loans and receivables	16,905	13,178
Mortgage loans	22,021	20,546
Loans to policyholders	8,694	7,711
Funds held by ceding insurers (1)	15,512	12,154
Reinsurance assets	5,131	5,151
Interest due and accrued	1,430	1,286
Accounts receivable	1,420	1,172
Premiums in course of collection	703	598
Trading account assets	590	405
Finance leases receivable	293	285
Other assets (2)	772	715
Derivative assets	461	652
Total	$ 174,783	$ 156,341

(1) Includes $13,830 ($10,758 at December 31, 2014) of funds held by ceding insurers where the Company retains the credit risk of the assets supporting the liabilities ceded (note 6).

(2) Includes items such as current income taxes receivable and miscellaneous other assets of the Company (note 13).

Credit risk is also mitigated by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Management monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. The Company has $107 of collateral received as at December 31, 2015 ($52 of collateral received as at December 31, 2014) relating to derivative assets.

7. Financial Instruments Risk Management (cont'd)

(ii) Concentration of Credit Risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. The characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

The following provides details of the carrying value of bonds by issuer, industry sector and geographic distribution:

	2015			
	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Canadian federal government	$ 5,745	$ 4	$ 31	$ 5,780
Provincial, state, and municipal governments	7,075	3,186	46	10,307
U.S. Treasury and other U.S. agencies	429	5,835	1,306	7,570
Other foreign governments	206	7	12,470	12,683
Government related	3,242	–	2,112	5,354
Supranationals	415	5	680	1,100
Asset-backed securities	2,607	3,581	595	6,783
Residential mortgage-backed securities	64	204	230	498
Banks	1,852	382	2,854	5,088
Other financial institutions	834	2,061	2,644	5,539
Basic materials	416	1,228	542	2,186
Communications	596	373	771	1,740
Consumer products	2,217	2,947	2,958	8,122
Industrial products/services	1,210	1,708	1,170	4,088
Natural resources	1,453	1,444	820	3,717
Real estate	1,502	786	3,228	5,516
Transportation	2,406	1,298	1,100	4,804
Utilities	6,200	4,910	4,341	15,451
Miscellaneous	1,410	1,876	538	3,824
Total long-term bonds	39,879	31,835	38,436	110,150
Short-term bonds	3,241	216	1,336	4,793
Total	$ 43,120	$ 32,051	$ 39,772	$ 114,943

	2014			
	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Canadian federal government	$ 5,356	$ 3	$ 46	$ 5,405
Provincial, state, and municipal governments	6,926	2,567	51	9,544
U.S. Treasury and other U.S. agencies	352	4,786	937	6,075
Other foreign governments	198	24	11,865	12,087
Government related	2,895	–	2,021	4,916
Supranationals	433	8	643	1,084
Asset-backed securities	2,648	3,161	789	6,598
Residential mortgage-backed securities	52	236	206	494
Banks	2,025	346	2,747	5,118
Other financial institutions	647	1,705	2,461	4,813
Basic materials	316	1,087	349	1,752
Communications	571	265	693	1,529
Consumer products	2,030	2,558	2,305	6,893
Industrial products/services	1,078	1,292	718	3,088
Natural resources	1,250	984	710	2,944
Real estate	1,407	452	2,849	4,708
Transportation	1,967	985	898	3,850
Utilities	5,460	4,206	3,912	13,578
Miscellaneous	1,416	1,281	456	3,153
Total long-term bonds	37,027	25,946	34,656	97,629
Short-term bonds	3,616	236	1,687	5,539
Total	$ 40,643	$ 26,182	$ 36,343	$ 103,168

The following provides details of the carrying value of mortgage loans by geographic location:

	2015			
	Single family residential	Multi-family residential	Commercial	Total
Canada	$ 1,962	$ 3,674	$ 7,055	$ 12,691
United States	–	1,770	3,162	4,932
Europe	–	377	4,021	4,398
Total	$ 1,962	$ 5,821	$ 14,238	$ 22,021

	2014			
	Single family residential	Multi-family residential	Commercial	Total
Canada	$ 1,916	$ 3,660	$ 7,017	$ 12,593
United States	–	1,324	2,888	4,212
Europe	–	338	3,403	3,741
Total	$ 1,916	$ 5,322	$ 13,308	$ 20,546

(iii) Asset Quality

Bond Portfolio By Credit Rating

	2015	2014
AAA	$ 36,434	$ 34,332
AA	20,364	18,954
A	35,623	31,133
BBB	20,984	17,370
BB and lower	1,538	1,379
Total	$ 114,943	$ 103,168

Derivative Portfolio By Credit Rating

	2015	2014
Over-the-counter contracts (counterparty ratings):		
AAA	$ –	$ 10
AA	209	66
A	248	576
Exchange-traded	4	–
Total	$ 461	$ 652

(iv) Loans Past Due, But Not Impaired

Loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management has reasonable assurance of collection of the full amount of principal and interest due. The following provides carrying values of the loans past due, but not impaired:

	2015	2014
Less than 30 days	$ 33	$ 7
30 – 90 days	2	5
Greater than 90 days	3	3
Total	$ 38	$ 15

(v) The following outlines the future asset credit losses provided for in insurance contract liabilities. These amounts are in addition to the allowance for asset losses included with assets:

	2015	2014
Participating	$ 1,395	$ 1,186
Non-participating	2,163	1,947
Total	$ 3,558	$ 3,133

7. Financial Instruments Risk Management (cont'd)

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The following policies and procedures are in place to manage this risk:

- The Company closely manages operating liquidity through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 69% (approximately 70% in 2014) of insurance and investment contract liabilities are non-cashable prior to maturity or subject to fair value adjustments.
- Management closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit or via capital market transactions. The Company maintains $350 of liquidity at the Lifeco level through committed lines of credit with Canadian chartered banks. As well, the Company maintains a $150 liquidity facility at Great-West Life, a U.S. $500 revolving credit agreement with a syndicate of banks for use by Putnam, and a U.S. $50 line of credit at Great-West Financial.

In the normal course of business the Company enters into contracts that give rise to commitments of future minimum payments that impact short-term and long-term liquidity. The following summarizes the principal repayment schedule of certain of the Company's financial liabilities.

	Payments due by period						
	Total	1 year	2 years	3 years	4 years	5 years	Over 5 years
Debentures and other debt instruments	$ 5,417	$ 467	$ 300	$ 200	$ –	$ 500	$ 3,950
Capital trust securities (1)	150	–	–	–	–	–	150
Purchase obligations	227	85	45	33	30	27	7
Pension contributions	198	198	–	–	–	–	–
Total	$ 5,992	$ 750	$ 345	$ 233	$ 30	$ 527	$ 4,107

(1) Payments due have not been reduced to reflect that the Company held capital trust securities of $37 principal amount ($50 carrying value).

(c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors which include three types: currency risk, interest rate (including related inflation) risk and equity risk.

Caution Related to Risk Sensitivities

These financial statements include estimates of sensitivities and risk exposure measures for certain risks, such as the sensitivity due to specific changes in interest rate levels projected and market prices as at the valuation date. Actual results can differ significantly from these estimates for a variety of reasons including:

- Assessment of the circumstances that led to the scenario may lead to changes in (re)investment approaches and interest rate scenarios considered,
- Changes in actuarial, investment return and future investment activity assumptions,
- Actual experience differing from the assumptions,
- Changes in business mix, effective income tax rates and other market factors,
- Interactions among these factors and assumptions when more than one changes, and
- The general limitations of the Company's internal models.

For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined above. Given the nature of these calculations, the Company cannot provide assurance that the actual impact on net earnings attributed to shareholders will be as indicated.

(i) Currency Risk

Currency risk relates to the Company operating and holding financial instruments in different currencies. For the assets backing insurance and investment contract liabilities that are not matched by currency, changes in foreign exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases. The Company has net investments in foreign operations. In addition, the Company's debt obligations are mainly denominated in Canadian dollars. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in accumulated other comprehensive income. Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates impacts the Company's total equity. Correspondingly, the Company's book value per share and capital ratios monitored by rating agencies are also impacted. The following policies and procedures are in place to mitigate the Company's exposure to currency risk:

- The Company uses financial measures such as constant currency calculations to monitor the effect of currency translation fluctuations.
- Investments are normally made in the same currency as the liabilities supported by those investments. Segmented Investment Guidelines include maximum tolerances for unhedged currency mismatch exposures.
- Foreign currency assets acquired to back liabilities are normally converted back to the currency of the liability using foreign exchange contracts.
- A 10% weakening of the Canadian dollar against foreign currencies would be expected to increase non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount resulting in an immaterial change to net earnings. A 10% strengthening of the Canadian dollar against foreign currencies would be expected to decrease non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount resulting in an immaterial change in net earnings.

(ii) Interest Rate Risk

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the asset and liability. The following policies and procedures are in place to mitigate the Company's exposure to interest rate risk:

- The Company utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.
- Interest rate risk is managed by investing in assets that are suitable for the products sold.
- Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims) the Company generally invests in real return instruments to hedge its real dollar liability cash flows. Some protection against changes in the inflation index is achieved as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.
- For products with fixed and highly predictable benefit payments, investments are made in fixed income assets or real estate whose cash flows closely match the liability product cash flows. Where assets are not available to match certain period cash flows, such as long-tail cash flows, a portion of these are invested in equities and the rest are duration matched. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. To the extent these cash flows are matched, protection against interest rate change is achieved and any change in the fair value of the assets will be offset by a similar change in the fair value of the liabilities.
- For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments, or equities as described below.
- The risk associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method to determine insurance contract liabilities. Valuation assumptions have been made regarding rates of returns on supporting assets, fixed income, equity and inflation. The valuation assumptions use best estimates of future reinvestment rates and inflation assumptions with an assumed correlation together with margins for adverse deviation set in accordance with professional standards. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Projected cash flows from fixed income assets used in actuarial calculations are reduced to provide for potential asset default losses. The net effective yield rate reduction averaged 0.18% (0.18% in 2014). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

Testing under a number of interest rate scenarios (including increasing, decreasing and fluctuating rates) is done to assess reinvestment risk. The total provision for interest rates is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries prescribed scenarios.

The range of interest rates covered by these provisions is set in consideration of long-term historical results and is monitored quarterly with a full review annually. An immediate 1% parallel shift in the yield curve would not have a material impact on

the Company's view of the range of interest rates to be covered by the provisions. If sustained however, the parallel shift could impact the Company's range of scenarios covered.

The total provision for interest rates also considers the impact of the Canadian Institute of Actuaries prescribed scenarios:

- The effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios would not change the total provision for interest rates.
- The effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios would not change the total provision for interest rates.

Another way of measuring the interest rate risk associated with this assumption is to determine the effect on the insurance and investment contract liabilities impacting the shareholders earnings of the Company of a 1% change in the Company's view of the range of interest rates to be covered by these provisions:

- The effect of an immediate 1% increase in the low and high end of the range of interest rates recognized in the provisions would be to decrease these insurance and investment contract liabilities by approximately $163 causing an increase in net earnings of approximately $109.
- The effect of an immediate 1% decrease in the low and high end of the range of interest rates recognized in the provisions would be to increase these insurance and investment contract liabilities by approximately $614 causing a decrease in net earnings of approximately $430.

(iii) Equity Risk

Equity risk is the uncertainty associated with the valuation of assets and liabilities arising from changes in equity markets and other pricing risk. To mitigate pricing risk, the Company has investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits. The risks associated with segregated fund guarantees have been mitigated through a hedging program for lifetime Guaranteed Minimum Withdrawal Benefit guarantees using equity futures, currency forwards, and interest rate derivatives. For policies with segregated fund guarantees, the Company generally determines insurance contract liabilities at a conditional tail expectation of 75 (CTE75) level.

Some insurance and investment contract liabilities are supported by investment properties, common stocks and private equities, for example segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity values. There will be additional impacts on these liabilities as equity values fluctuate. A 10% increase in equity values would be expected to additionally decrease non-participating insurance and investment contract liabilities by approximately $53 causing an increase in net earnings of approximately $45. A 10% decrease in equity values would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately $139 causing a decrease in net earnings of approximately $108.

The best estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows. A 1% increase in the best estimate assumption would be expected to decrease non-participating insurance contract liabilities by approximately $534 causing an increase in net earnings of approximately $433. A 1% decrease in the best estimate assumption would be expected to increase non-participating insurance contract liabilities by approximately $573 causing a decrease in net earnings of approximately $457.

8. Fair Value Measurement

The Company's assets and liabilities recorded at fair value have been categorized based upon the following fair value hierarchy:

Level 1: Fair value measurements utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Assets and liabilities utilizing Level 1 inputs include actively exchange-traded equity securities, exchange-traded futures, and mutual and segregated funds which have available prices in an active market with no redemption restrictions.

Level 2: Fair value measurements utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data. Level 2 assets and liabilities include those priced using a matrix which is based on credit quality and average life, government and agency securities, restricted stock, some private bonds and equities, most investment-grade and high-yield corporate bonds, most asset-backed securities, most over-the-counter derivatives, and mortgage loans. Investment contracts that are measured at fair value are included in the Level 2 category.

Level 3: Fair value measurements utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability. The values of the majority of Level 3 securities were obtained from single broker quotes, internal pricing models, or external appraisers. Assets and liabilities utilizing Level 3 inputs generally include certain bonds, certain asset-backed securities, some private equities, investments in mutual and segregated funds where there are redemption restrictions, certain over-the-counter derivatives, and investment properties.

The following presents the Company's assets and liabilities measured at fair value on a recurring basis by hierarchy level:

	2015			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Cash and cash equivalents	$ 2,813	$ –	$ –	$ 2,813
Financial assets at fair value through profit or loss				
Bonds	–	86,493	10	86,503
Stocks	6,573	8	66	6,647
Total financial assets at fair value through profit or loss	6,573	86,501	76	93,150
Available-for-sale financial assets				
Bonds	–	11,534	1	11,535
Stocks	56	–	1	57
Total available-for-sale financial assets	56	11,534	2	11,592
Investment properties	–	–	5,237	5,237
Derivatives [(1)]	4	457	–	461
Other assets:				
Trading account assets	381	204	5	590
Total assets measured at fair value	**$ 9,827**	**$ 98,696**	**$ 5,320**	**$ 113,843**
Liabilities measured at fair value				
Derivatives [(2)]	$ 3	$ 2,621	$ –	$ 2,624
Investment contract liabilities	–	2,153	27	2,180
Total liabilities measured at fair value	**$ 3**	**$ 4,774**	**$ 27**	**$ 4,804**

(1) Excludes collateral received of $107.
(2) Excludes collateral pledged of $608.

There were no transfers of the Company's assets and liabilities between Level 1 and Level 2 in the period.

8. Fair Value Measurement (cont'd)

	2014			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Cash and cash equivalents	$ 2,498	$ –	$ –	$ 2,498
Financial assets at fair value through profit or loss				
Bonds	–	79,914	86	80,000
Stocks	6,594	6	17	6,617
Total financial assets at fair value through profit or loss	6,594	79,920	103	86,617
Available-for-sale financial assets				
Bonds	–	9,989	1	9,990
Stocks	49	–	1	50
Total available-for-sale financial assets	49	9,989	2	10,040
Investment properties	–	–	4,613	4,613
Derivatives (1)	1	651	–	652
Other assets:				
Trading account assets	262	143	–	405
Other (2)	16	–	–	16
Total assets measured at fair value	$ 9,420	$ 90,703	$ 4,718	$ 104,841
Liabilities measured at fair value				
Derivatives (3)	$ 4	$ 1,191	$ –	$ 1,195
Investment contract liabilities	–	829	28	857
Other liabilities	16	–	–	16
Total liabilities measured at fair value	$ 20	$ 2,020	$ 28	$ 2,068

(1) Excludes collateral received of $52.
(2) Includes cash collateral under securities lending agreements.
(3) Excludes collateral pledged of $273.

There were no transfers of the Company's assets and liabilities between Level 1 and Level 2 in the period.

The following presents additional information about assets and liabilities measured at fair value on a recurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

	2015							
	Fair value through profit or loss bonds	Available-for-sale bonds	Fair value through profit or loss stocks [3]	Available-for-sale stocks	Investment properties	Other assets – trading account [4]	Total Level 3 assets	Investment contract liabilities
Balance, beginning of year	$ 86	$ 1	$ 17	$ 1	$ 4,613	$ –	$ 4,718	$ 28
Total gains								
Included in net earnings	5	–	7	–	249	–	261	–
Included in other comprehensive income [1]	–	–	–	–	379	–	379	–
Purchases	–	–	50	–	278	5	333	–
Sales	–	–	(4)	–	(282)	–	(286)	–
Repayments	(47)	–	–	–	–	–	(47)	–
Other	–	–	–	–	–	–	–	(1)
Transfers into Level 3 [2]	–	–	–	–	–	–	–	–
Transfers out of Level 3 [2]	(34)	–	(4)	–	–	–	(38)	–
Balance, end of year	$ 10	$ 1	$ 66	$ 1	$ 5,237	$ 5	$ 5,320	$ 27
Total gains for the year included in net investment income	$ 5	$ –	$ 7	$ –	$ 249	$ –	$ 261	$ –
Change in unrealized gains for the year included in earnings for assets held at December 31, 2015	$ 5	$ –	$ 7	$ –	$ 243	$ –	$ 255	$ –

(1) Amount of other comprehensive income for investment properties represents the unrealized gains on foreign exchange.

(2) Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors or the lifting of redemption restrictions on investments in mutual and segregated funds.

(3) Includes investments in mutual and segregated funds where there are redemption restrictions. The fair value is based on observable, quoted prices.

(4) Includes illiquid equities where prices are not quoted; however, the Company does not believe changing the inputs to reasonably alternate assumptions would change the values significantly.

8. Fair Value Measurement (cont'd)

	2014							
	Fair value through profit or loss bonds	Available-for-sale bonds	Fair value through profit or loss stocks (3)	Available-for-sale stocks	Investment properties	Other assets – trading account (4)	Total Level 3 assets	Investment contract liabilities
Balance, beginning of year	$ 333	$ 24	$ 24	$ 1	$ 4,288	$ 21	$ 4,691	$ 30
Total gains (losses)								
Included in net earnings	6	–	(1)	–	262	1	268	–
Included in other comprehensive income (1)	–	1	–	–	56	–	57	–
Purchases	33	–	8	–	127	–	168	–
Sales	–	–	(13)	–	(98)	(22)	(133)	–
Repayments	(1)	–	–	–	–	–	(1)	–
Transferred to owner occupied properties	–	–	–	–	(13)	–	(13)	–
Other	–	–	–	–	(9)	–	(9)	(2)
Transfers into Level 3 (2)	–	–	–	–	–	–	–	–
Transfers out of Level 3 (2)	(285)	(24)	(1)	–	–	–	(310)	–
Balance, end of year	$ 86	$ 1	$ 17	$ 1	$ 4,613	$ –	$ 4,718	$ 28
Total gains (losses) for the year included in net investment income	$ 6	$ –	$ (1)	$ –	$ 262	$ 1	$ 268	$ –
Change in unrealized gains (losses) for the year included in earnings for assets held at December 31, 2014	$ 6	$ –	$ (3)	$ –	$ 229	$ 1	$ 233	$ –

(1) Amount of other comprehensive income for investment properties represents the unrealized gains on foreign exchange.

(2) Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors or the lifting of redemption restrictions on investments in mutual and segregated funds.

(3) Includes investments in mutual and segregated funds where there are redemption restrictions. The fair value is based on observable, quoted prices.

(4) Includes illiquid equities where prices are not quoted; however, the Company does not believe changing the inputs to reasonably alternate assumptions would change the values significantly.

The following sets out information about significant unobservable inputs used at year-end in measuring assets and liabilities categorized as Level 3 in the fair value hierarchy.

Type of asset	Valuation approach	Significant unobservable input	Input value	Inter-relationship between key unobservable inputs and fair value measurement
Investment properties	Investment property valuations are generally determined using property valuation models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates.	Discount rate	Range of 3.2% – 10.0%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.
		Reversionary rate	Range of 4.8% – 8.3%	A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value.
		Vacancy rate	Weighted average of 3.9%	A decrease in the expected vacancy rate would generally result in an increase in fair value. An increase in the expected vacancy rate would generally result in a decrease in fair value.

The following presents the Company's assets and liabilities disclosed at fair value on a recurring basis by hierarchy level:

	2015				
	Level 1	**Level 2**	**Level 3**	**Other assets/ liabilities not held at fair value**	**Total**
Assets disclosed at fair value					
Loans and receivables financial assets					
Bonds	**$ –**	**$ 18,145**	**$ 108**	**$ –**	**$ 18,253**
Mortgage loans	**–**	**23,446**	**–**	**–**	**23,446**
Total loans and receivables financial assets	**–**	**41,591**	**108**	**–**	**41,699**
Other stocks [(1)]	**325**	**–**	**–**	**276**	**601**
Total assets disclosed at fair value	**$ 325**	**$ 41,591**	**$ 108**	**$ 276**	**$ 42,300**
Liabilities disclosed at fair value					
Debentures and other debt instruments	**$ 467**	**$ 5,565**	**$ –**	**$ –**	**$ 6,032**
Capital trust securities	**–**	**215**	**–**	**–**	**215**
Total liabilities disclosed at fair value	**$ 467**	**$ 5,780**	**$ –**	**$ –**	**$ 6,247**

(1) Other stocks include the Company's investments in an affiliated company, IGM, a member of the Power Financial group of companies and Allianz Ireland, an unlisted general insurance company operating in Ireland over which the Company exerts significant influence but does not control.

	2014				
	Level 1	Level 2	Level 3	Other assets/ liabilities not held at fair value	Total
Assets disclosed at fair value					
Loans and receivables financial assets					
Bonds	$ –	$ 14,533	$ 126	$ –	$ 14,659
Mortgage loans	–	22,167	–	–	22,167
Total loans and receivables financial assets	–	36,700	126	–	36,826
Other stocks [(1)]	426	–	–	238	664
Total assets disclosed at fair value	$ 426	$ 36,700	$ 126	$ 238	$ 37,490
Liabilities disclosed at fair value					
Debentures and other debt instruments	$ 526	$ 5,506	$ 70	$ –	$ 6,102
Capital trust securities	–	220	–	–	220
Total liabilities disclosed at fair value	$ 526	$ 5,726	$ 70	$ –	$ 6,322

(1) Other stocks include the Company's investments in an affiliated company, IGM, a member of the Power Financial group of companies; Allianz Ireland, an unlisted general insurance company operating in Ireland; and a joint venture in GloHealth, a health insurance company operating in Ireland, over which the Company exerts significant influence but does not control.

9. Enforceable Master Netting Arrangements or Similar Agreements

The Company enters into International Swaps and Derivative Association's master agreements for transacting over-the-counter derivatives. The Company receives and pledges collateral according to the related International Swaps and Derivative Association's Credit Support Annexes. The International Swaps and Derivative Association's master agreements do not meet the criteria for offsetting on the Consolidated Balance Sheets because they create a right of set-off that is enforceable only in the event of default, insolvency, or bankruptcy.

For exchange-traded derivatives subject to derivative clearing agreements with the exchanges and clearinghouses, there is no provision for set-off at default. Initial margin is excluded from the table within this disclosure as it would become part of a pooled settlement process.

The Company's reverse repurchase agreements are also subject to right of set-off in the event of default. These transactions and agreements include master netting arrangements which provide for the netting of payment obligations between the Company and its counterparties in the event of default.

The table sets out the potential effect on the Company's Consolidated Balance Sheets on financial instruments that have been shown in a gross position where right of set-off exists under certain circumstances that do not qualify for netting on the Consolidated Balance Sheets.

	2015			
		Related amounts not set-off in the Balance Sheet		
	Gross amount of financial instruments presented in the Balance Sheet	Offsetting counterparty position [(1)]	Financial collateral received/ pledged [(2)]	Net exposure
Financial instruments (assets)				
Derivative financial instruments	**$ 461**	**$ (302)**	**$ (104)**	**$ 55**
Reverse repurchase agreements [(3)]	**43**	**–**	**(43)**	**–**
Total financial instruments (assets)	**$ 504**	**$ (302)**	**$ (147)**	**$ 55**
Financial instruments (liabilities)				
Derivative instruments	**$ 2,624**	**$ (302)**	**$ (586)**	**$ 1,736**
Total financial instruments (liabilities)	**$ 2,624**	**$ (302)**	**$ (586)**	**$ 1,736**

	2014			
		Related amounts not set-off in the Balance Sheet		
	Gross amount of financial instruments presented in the Balance Sheet	Offsetting counterparty position [(1)]	Financial collateral received/ pledged [(2)]	Net exposure
Financial instruments (assets)				
Derivative financial instruments	$ 652	$ (302)	$ (51)	$ 299
Reverse repurchase agreements [(3)]	44	–	(44)	–
Total financial instruments (assets)	$ 696	$ (302)	$ (95)	$ 299
Financial instruments (liabilities)				
Derivative instruments	$ 1,195	$ (302)	$ (260)	$ 633
Total financial instruments (liabilities)	$ 1,195	$ (302)	$ (260)	$ 633

(1) Includes counterparty amounts recognized on the Consolidated Balance Sheets where the Company has a potential offsetting position (as described above) but does not meet the criteria for offsetting on the balance sheet, excluding collateral.

(2) Financial collateral presented above excludes overcollateralization and, for exchange-traded derivatives, initial margin. Financial collateral received on reverse repurchase agreements is held by a third party. Total financial collateral, including initial margin and overcollateralization, received on derivative assets was $107 ($52 at December 31, 2014), received on reverse repurchase agreements was $44 ($45 at December 31, 2014), and pledged on derivative liabilities was $671 ($299 at December 31, 2014).

(3) Assets related to reverse repurchase agreements are included in bonds, in the Consolidated Balance Sheets.

10. Pledging of Assets for Reinsurance Agreements

The amount of assets included in the Company's balance sheet which have a security interest by way of pledging is $645 ($598 at December 31, 2014) in respect of reinsurance agreements.

11. Goodwill and Intangible Assets

(a) Goodwill

(i) The carrying value of goodwill and changes in the carrying value of goodwill are as follows:

	2015	2014
Balance, beginning of year	**$ 5,855**	$ 5,812
Business acquisitions	**–**	50
Changes in foreign exchange rates	**58**	(7)
Balance, end of year	**$ 5,913**	$ 5,855

Accumulated goodwill impairment losses and changes in accumulated goodwill impairment losses are as follows:

	2015	2014
Balance, beginning of year	**$ 1,043**	$ 953
Changes in foreign exchange rates	**198**	90
Balance, end of year	**$ 1,241**	$ 1,043

(ii) Within each of the three operating segments, goodwill has been assigned to cash generating unit groupings, representing the lowest level in which goodwill is monitored for internal reporting purposes. Lifeco does not allocate insignificant amounts of goodwill and indefinite life intangible assets across multiple cash generating unit groupings. Goodwill is tested for impairment by comparing the carrying value of each cash generating unit grouping to which goodwill has been assigned to its recoverable amount as follows:

	2015	2014
Canada		
Group	**$ 1,047**	$ 1,047
Individual Insurance/Wealth Management	**2,740**	2,740
Europe		
Insurance and Annuities	**1,915**	1,887
Reinsurance	**1**	1
United States		
Financial Services	**210**	180
Total	**$ 5,913**	$ 5,855

11. Goodwill and Intangible Assets (cont'd)

(b) Intangible Assets

Intangible assets of $4,036 ($3,625 in 2014) include indefinite life and finite life intangible assets. The carrying value and changes in the carrying value of these intangible assets are as follows:

(i) Indefinite life intangible assets:

	2015			
	Brands and trademarks	**Customer contract related**	**Shareholders' portion of acquired future participating account profit**	**Total**
Cost				
Balance, beginning of year	**$ 921**	**$ 2,592**	**$ 354**	**$ 3,867**
Business acquisitions	**–**	**3**	**–**	**3**
Changes in foreign exchange rates	**99**	**424**	**–**	**523**
Balance, end of year	**$ 1,020**	**$ 3,019**	**$ 354**	**$ 4,393**
Accumulated impairment				
Balance, beginning of year	**$ (140)**	**$ (939)**	**$ –**	**$ (1,079)**
Changes in foreign exchange rates	**(22)**	**(177)**	**–**	**(199)**
Balance, end of year	**$ (162)**	**$ (1,116)**	**$ –**	**$ (1,278)**
Net carrying amount	**$ 858**	**$ 1,903**	**$ 354**	**$ 3,115**

	2014			
	Brands and trademarks	Customer contract related	Shareholders' portion of acquired future participating account profit	Total
Cost				
Balance, beginning of year	$ 893	$ 2,398	$ 354	$ 3,645
Changes in foreign exchange rates	28	194	–	222
Balance, end of year	$ 921	$ 2,592	$ 354	$ 3,867
Accumulated impairment				
Balance, beginning of year	$ (132)	$ (858)	$ –	$ (990)
Changes in foreign exchange rates	(8)	(81)	–	(89)
Balance, end of year	$ (140)	$ (939)	$ –	$ (1,079)
Net carrying amount	$ 781	$ 1,653	$ 354	$ 2,788

(ii) Indefinite life intangible assets have been assigned to the cash generating unit groupings as follows:

	2015	2014
Canada		
Individual Insurance/Wealth Management	**$ 973**	$ 973
Europe		
Insurance and Annuities	**246**	221
United States		
Asset Management	**1,896**	1,594
Total	**$ 3,115**	$ 2,788

(iii) Finite life intangible assets:

	2015			
	Customer contract related	**Distribution channels**	**Technology/ Software**	**Total**
Amortization period range	**9–20 years**	**30 years**	**3–10 years**	
Weighted average remaining amortization period	**9 years**	**18 years**	**–**	
Amortization method	**Straight-line**	**Straight-line**	**Straight-line**	
Cost				
Balance, beginning of year	**$ 745**	**$ 109**	**$ 864**	**$ 1,718**
Additions	**–**	**–**	**161**	**161**
Changes in foreign exchange rates	**65**	**9**	**81**	**155**
Balance, end of year	**$ 810**	**$ 118**	**$ 1,106**	**$ 2,034**
Accumulated amortization and impairment				
Balance, beginning of year	**$ (338)**	**$ (42)**	**$ (501)**	**$ (881)**
Impairment	**–**	**–**	**(2)**	**(2)**
Changes in foreign exchange rates	**(31)**	**(3)**	**(50)**	**(84)**
Amortization	**(49)**	**(4)**	**(93)**	**(146)**
Balance, end of year	**$ (418)**	**$ (49)**	**$ (646)**	**$ (1,113)**
Net carrying amount	**$ 392**	**$ 69**	**$ 460**	**$ 921**

	2014			
	Customer contract related	Distribution channels	Technology/ Software	Total
Amortization period range	9–20 years	30 years	3–10 years	
Weighted average remaining amortization period	10 years	19 years	–	
Amortization method	Straight-line	Straight-line	Straight-line	
Cost				
Balance, beginning of year	$ 707	$ 110	$ 709	$ 1,526
Business acquisitions	18	–	–	18
Additions	–	–	120	120
Disposals	–	–	(16)	(16)
Changes in foreign exchange rates	20	(1)	32	51
Other	–	–	19	19
Balance, end of year	$ 745	$ 109	$ 864	$ 1,718
Accumulated amortization and impairment				
Balance, beginning of year	$ (280)	$ (38)	$ (407)	$ (725)
Impairment	–	–	(7)	(7)
Changes in foreign exchange rates	(11)	–	(20)	(31)
Disposals	–	–	14	14
Amortization	(47)	(4)	(81)	(132)
Balance, end of year	$ (338)	$ (42)	$ (501)	$ (881)
Net carrying amount	$ 407	$ 67	$ 363	$ 837

11. Goodwill and Intangible Assets (cont'd)

(c) Recoverable Amount

For the purposes of annual impairment testing, the Company allocates goodwill and indefinite life intangible assets to cash generating unit groupings. Any potential impairment of goodwill or indefinite life intangible assets is identified by comparing the recoverable amount of a cash generating unit grouping to its carrying value. Recoverable amount is based on fair value less cost of disposal.

Fair value is initially assessed with reference to valuation multiples of comparable publicly-traded financial institutions and precedent business acquisitions transactions. These valuation multiples may include price-to-earnings or price-to-book measures for life insurers and asset managers. This assessment may give regard to a variety of relevant considerations, including expected growth, risk and capital market conditions, among other factors. The valuation multiples used in assessing fair value represent Level 2 inputs.

In the fourth quarter of 2015, the Company conducted its annual impairment testing of goodwill and indefinite life intangible assets based on September 30, 2015 asset balances. It was determined that the recoverable amounts of cash generating unit groupings were in excess of their carrying values and there was no evidence of impairment.

Any reasonable changes in assumptions and estimates used in determining recoverable amounts of cash generating unit groupings is unlikely to cause carrying values to exceed recoverable amounts.

12. Owner Occupied Properties and Fixed Assets

The carrying value of owner occupied properties and the changes in the carrying value of owner occupied properties is as follows:

	2015	2014
Carrying value, beginning of year	$ **671**	$ 634
Less: accumulated depreciation/impairments	**(52)**	(44)
Net carrying value, beginning of year	**619**	590
Additions	**10**	13
Impairments	**(1)**	–
Disposals	**(1)**	–
Transferred from investment properties	**–**	13
Depreciation	**(9)**	(8)
Foreign exchange	**35**	11
Net carrying value, end of year	$ **653**	$ 619

The net carrying value of fixed assets is $298 at December 31, 2015 ($228 at December 31, 2014).

The following provides details of the net carrying value of owner occupied properties and fixed assets by geographic location:

	2015	2014
Canada	$ **531**	$ 507
United States	**277**	212
Europe	**143**	128
Total	$ **951**	$ 847

There are no restrictions on the title of the owner occupied properties and fixed assets, nor are they pledged as security for debt.

13. Other Assets

	2015	2014
Deferred acquisition costs [(1)]	**$ 704**	$ 685
Trading account assets [(2)]	**590**	405
Finance leases receivable	**293**	285
Defined benefit pension plan assets (note 24)	**250**	275
Prepaid expenses	**103**	92
Miscellaneous other assets [(1)]	**703**	626
Total	**$ 2,643**	$ 2,368

(1) During the year, the Company reclassified $41 of other assets from miscellaneous other assets to deferred acquisitions costs at December 31, 2014 ($37 at January 1, 2014) to conform to the current year's presentation.

(2) Includes bonds of $124 and stocks of $466 at December 31, 2015 (bonds of $78 and stocks of $327 at December 31, 2014).

Total other assets of $1,421 ($1,151 at December 31, 2014) are expected to be realized within 12 months from the reporting date. This amount excludes deferred acquisition costs, the changes in which are noted below.

Deferred acquisition costs	2015	2014
Balance, beginning of year	**$ 685**	$ 724
Additions	**120**	119
Amortization	**(111)**	(102)
Changes in foreign exchange	**66**	3
Disposals	**(56)**	(59)
Balance, end of year	**$ 704**	$ 685

Finance leases receivable

The Company has a finance lease on one property in Canada which has been leased for a 25-year term. The Company has two finance leases on properties in Europe. These properties have been leased for a 35-year term.

The finance lease receivable for the three properties, in aggregate, is as follows:

	2015	
	Minimum lease payments	Present value of minimum lease payments
One year	$ 25	$ 23
Over one to five years	95	77
Over five years	590	193
	710	293
Less: unearned finance lease income	417	–
Total finance leases receivable	**$ 293**	**$ 293**

The internal rate of return for the leases is fixed at the contract date and will remain fixed for the duration of the contract, ranging between 5.4% and 7.5%.

14. Segregated Funds and Other Structured Entities

The Company offers segregated fund products in Canada, the U.S. and Europe that are referred to as segregated funds, separate accounts and unit-linked funds in the respective region. These funds are contracts issued by insurers to segregated fund policyholders where the benefit is directly linked to the performance of the investments, the risks or rewards of the fair value movements and net investment income is realized by the segregated fund policyholders. The segregated fund policyholders are required to select the segregated funds that hold a range of underlying investments. While the Company has legal title to the investments, there is a contractual obligation to pass along the investment results to the segregated fund policyholder and the Company segregates these investments from those of the Company.

In Canada and the U.S., the segregated fund and separate account assets are legally separated from the general assets of the Company under the terms of the policyholder agreement and cannot be used to settle obligations of the Company. In Europe, the assets of the funds are functionally and constructively segregated from those of the Company. As a result of the legal and constructive arrangements of these funds, the assets and liabilities of these funds are presented as line items within the Consolidated Balance Sheets titled investments on account of segregated fund policyholders and with an equal liability titled investment and insurance contracts on account of segregated fund policyholders.

In circumstances where the segregated funds are invested in structured entities and are deemed to control the entity, the Company has presented the non-controlling ownership interest within the segregated funds for the risk of policyholders as equal and offsetting amounts in the assets and liabilities. The amounts presented within are $1,390 at December 31, 2015 ($1,012 at December 31, 2014).

Within the Consolidated Statements of Earnings, all segregated fund policyholders' income, including fair value changes and net investment income, is credited to the segregated fund policyholders and reflected in the assets and liabilities on account of segregated fund policyholders within the Consolidated Balance Sheets. As these amounts do not directly impact the revenues and expenses of the Company, these amounts are not included separately in the Consolidated Statements of Earnings.

Segregated Funds Guarantee Exposure

The Company offers retail segregated fund products, unitized with profits (UWP) products and variable annuity products that provide for certain guarantees that are tied to the market values of the investment funds. While these products are similar to mutual funds, there is a key difference from mutual funds as the segregated funds have certain guarantee features that protect the segregated fund policyholder from market declines in the underlying investments. These guarantees are the Company's primary exposure on these funds. The Company accounts for these guarantees within insurance and investment contract liabilities within the financial statements. In addition to the Company's exposure on the guarantees, the fees earned by the Company on these products are impacted by the market value of these funds.

In Canada, the Company offers retail segregated fund products through Great-West Life, London Life and Canada Life. These products provide guaranteed minimum death benefits (GMDB) and guaranteed minimum accumulation on maturity benefits.

In the U.S., the Company offers variable annuities with GMDB through Great-West Financial. Most are a return of premium on death with the guarantee expiring at age 70.

In Europe, the Company offers UWP products through Canada Life and unit-linked products with investment guarantees through Irish Life. These products are similar to segregated fund products, but include pooling of policyholders' funds and minimum credited interest rates.

The Company also offers a guaranteed minimum withdrawal benefits (GMWB) product in Canada, the U.S. and Germany. The GMWB products offered by the Company offer levels of death and maturity guarantees. At December 31, 2015, the amount of GMWB product in-force in Canada, the U.S., Ireland and Germany was $3,488 ($3,016 at December 31, 2014).

The Company's exposure to these guarantees is set out as follows:

	2015			
	Investment deficiency by benefit type			
	Income	**Maturity**	**Death**	**Total (1)**
Canada	**$ –**	**$ 48**	**$ 213**	**$ 213**
United States	**28**	**–**	**55**	**83**
Europe	**444**	**–**	**473**	**914**
Total	**$ 472**	**$ 48**	**$ 741**	**$ 1,210**

	2014			
	Investment deficiency by benefit type			
	Income	Maturity	Death	Total (1)
Canada	$ –	$ 30	$ 97	$ 97
United States	1	–	43	44
Europe	351	36	72	422
Total	$ 352	$ 66	$ 212	$ 563

(1) A policy can only receive a payout from one of the three trigger events (income election, maturity or death). Total deficiency measures the point-in-time exposure assuming the most costly trigger event for each policy occurred on December 31, 2015 and December 31, 2014.

The investment deficiency measures the point-in-time exposure to a trigger event (i.e. income election, maturity, or death) assuming it occurred on December 31, 2015. The actual cost to the Company will depend on the trigger event having occurred and the market values at that time. The actual claims before tax associated with these guarantees was approximately $15 for the year ended December 31, 2015 ($10 for the year ended December 31, 2014), with the majority arising in the Europe segment.

For further details on the Company's risk and guarantee exposure and the management of these risks, refer to the Risk Management and Control Practice section of the Company's December 31, 2015 Management's Discussion and Analysis.

The following presents further details of the investments, determined in accordance with the relevant statutory reporting requirements of each region of the Company's operations, on account of segregated fund policyholders:

(a) Investments on account of segregated fund policyholders

	2015	2014
Cash and cash equivalents	**$ 11,656**	$ 11,052
Bonds	**42,160**	37,912
Mortgage loans	**2,596**	2,508
Stocks and units in unit trusts	**80,829**	68,911
Mutual funds	**50,101**	46,707
Investment properties	**10,839**	9,533
	198,181	176,623
Accrued income	**382**	364
Other liabilities	**(1,759)**	(3,033)
Non-controlling mutual funds interest	**1,390**	1,012
Total	**$ 198,194**	$ 174,966

(b) Investment and insurance contracts on account of segregated fund policyholders

	2015	2014
Balance, beginning of year	**$ 174,966**	$ 160,779
Additions (deductions):		
Policyholder deposits	**21,592**	20,909
Net investment income	**2,855**	2,997
Net realized capital gains on investments	**4,780**	5,683
Net unrealized capital gains (losses) on investments	**(2,938)**	5,301
Unrealized gains due to changes in foreign exchange rates	**12,933**	826
Policyholder withdrawals	**(21,934)**	(21,057)
Business acquisition (note 3)	**5,465**	–
Segregated fund investment in General Fund	**43**	(382)
General Fund investment in Segregated Fund	**(11)**	(401)
Net transfer from General Fund	**65**	71
Non-controlling mutual funds interest	**378**	240
Total	**23,228**	14,187
Balance, end of year	**$ 198,194**	$ 174,966

(c) Investment income on account of segregated fund policyholders

	2015	2014
Net investment income	**$ 2,855**	$ 2,997
Net realized capital gains on investments	**4,780**	5,683
Net unrealized capital gains (losses) on investments	**(2,938)**	5,301
Unrealized gains due to changes in foreign exchange rates	**12,933**	826
Total	**17,630**	14,807
Change in investment and insurance contracts liability on account of segregated fund policyholders	**17,630**	14,807
Net	**$ –**	$ –

14. Segregated Funds and Other Structured Entities (cont'd)

(d) Investments on account of segregated fund policyholders by fair value hierarchy level (note 8)

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments on account of segregated fund policyholders [(1)]	**$ 120,283**	**$ 67,333**	**$ 11,765**	**$ 199,381**

(1) Excludes other liabilities, net of other assets, of $1,187.

	2014			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders [(1)]	$ 112,189	$ 54,942	$ 10,390	$ 177,521

(1) Excludes other liabilities, net of other assets, of $2,555.

During 2015, certain foreign stock holdings valued at $412 have been transferred from Level 1 to Level 2 ($2,234 were transferred from Level 1 to Level 2 at December 31, 2014) based on the Company's ability to utilize observable, quoted prices in active markets.

Level 2 assets include those assets where fair value is not available from normal market pricing sources and where the Company does not have visibility through to the underlying assets.

The following presents additional information about the Company's investments on account of segregated fund policyholders for which the Company has utilized Level 3 inputs to determine fair value:

	2015	2014
Balance, beginning of year	**$ 10,390**	$ 9,298
Total gains included in segregated fund investment income	**1,039**	782
Purchases	**944**	919
Sales	**(607)**	(603)
Transfers into Level 3	**–**	4
Transfers out of Level 3	**(1)**	(10)
Balance, end of year	**$ 11,765**	$ 10,390

Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors.

In addition to the segregated funds, the Company has interests in a number of structured unconsolidated entities including mutual funds, open-ended investment companies, and unit trusts. These entities are created as investment strategies for its unit-holders based on the directive of each individual fund.

Some of these funds are managed by related parties of the Company and the Company receives management fees related to these services. Management fees can be variable due to performance of factors – such as markets or industries – in which the fund invests. Fee income derived in connection with the management of investment funds generally increases or decreases in direct relationship with changes of assets under management which is affected by prevailing market conditions, and the inflow and outflow of client assets.

Factors that could cause assets under management and fees to decrease include declines in equity markets, changes in fixed income markets, changes in interest rates and defaults, redemptions and other withdrawals, political and other economic risks, changing investment trends and relative investment performance. The risk is that fees may vary but expenses and recovery of initial expenses are relatively fixed, and market conditions may cause a shift in asset mix potentially resulting in a change in revenue.

During 2015, fee and other income earned by the Company resulting from the Company's interests in these structured entities was $4,291 ($3,813 during 2014).

Included within other assets (note 13) at December 31, 2015 is $501 ($327 at December 31, 2014) of investments by the Company in bonds and stocks of Putnam sponsored funds and $89 ($78 at December 31, 2014) of investments in stocks of sponsored unit trusts in Europe.

15. Insurance and Investment Contract Liabilities

(a) Insurance and investment contract liabilities

	2015		
	Gross liability	**Reinsurance assets**	**Net**
Insurance contract liabilities	**$ 158,492**	**$ 5,131**	**$ 153,361**
Investment contract liabilities	**2,180**	**–**	**2,180**
Total	**$ 160,672**	**$ 5,131**	**$ 155,541**

	2014		
	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	$ 145,198	$ 5,151	$ 140,047
Investment contract liabilities	857	–	857
Total	$ 146,055	$ 5,151	$ 140,904

(b) Composition of insurance and investment contract liabilities and related supporting assets

(i) The composition of insurance and investment contract liabilities is as follows:

	2015		
	Gross liability	**Reinsurance assets**	**Net**
Participating			
Canada	**$ 32,072**	**$ (419)**	**$ 32,491**
United States	**12,278**	**16**	**12,262**
Europe	**1,519**	**–**	**1,519**
Non-Participating			
Canada	**28,162**	**794**	**27,368**
United States	**27,625**	**339**	**27,286**
Europe	**59,016**	**4,401**	**54,615**
Total	**$ 160,672**	**$ 5,131**	**$ 155,541**

	2014		
	Gross liability	Reinsurance assets	Net
Participating			
Canada	$ 31,181	$ (156)	$ 31,337
United States	10,362	12	10,350
Europe	1,377	–	1,377
Non-Participating			
Canada	28,094	832	27,262
United States	22,611	233	22,378
Europe	52,430	4,230	48,200
Total	$ 146,055	$ 5,151	$ 140,904

15. Insurance and Investment Contract Liabilities (cont'd)

(ii) The composition of the assets supporting liabilities and equity is as follows:

	2015					
	Bonds	**Mortgage loans**	**Stocks [1]**	**Investment properties**	**Other**	**Total**
Carrying value						
Participating liabilities						
Canada	**$ 15,332**	**$ 7,816**	**$ 4,112**	**$ 1,341**	**$ 3,471**	**$ 32,072**
United States	**5,887**	**485**	**–**	**–**	**5,906**	**12,278**
Europe	**1,087**	**40**	**154**	**71**	**167**	**1,519**
Non-participating liabilities						
Canada	**18,848**	**3,839**	**1,732**	**7**	**3,736**	**28,162**
United States	**23,023**	**3,813**	**–**	**–**	**789**	**27,625**
Europe	**32,985**	**4,358**	**226**	**3,342**	**18,105**	**59,016**
Other	**12,045**	**941**	**–**	**65**	**200,952**	**214,003**
Total equity	**5,736**	**729**	**1,649**	**411**	**16,735**	**25,260**
Total carrying value	**$ 114,943**	**$ 22,021**	**$ 7,873**	**$ 5,237**	**$ 249,861**	**$ 399,935**
Fair value	**$ 116,291**	**$ 23,446**	**$ 7,305**	**$ 5,237**	**$ 249,861**	**$ 402,140**

	2014					
	Bonds	Mortgage loans	Stocks [1]	Investment properties	Other	Total
Carrying value						
Participating liabilities						
Canada	$ 13,856	$ 7,810	$ 4,270	$ 1,167	$ 4,078	$ 31,181
United States	5,080	278	–	–	5,004	10,362
Europe	968	38	144	63	164	1,377
Non-participating liabilities						
Canada	18,991	3,941	1,740	5	3,417	28,094
United States	18,678	3,330	–	–	603	22,611
Europe	30,723	3,702	191	2,738	15,076	52,430
Other	9,998	690	4	107	177,958	188,757
Total equity	4,874	757	1,471	533	14,262	21,897
Total carrying value	$ 103,168	$ 20,546	$ 7,820	$ 4,613	$ 220,562	$ 356,709
Fair value	$ 104,649	$ 22,167	$ 7,331	$ 4,613	$ 220,562	$ 359,322

(1) Fair value excludes stocks classified as available-for-sale and carried at cost when a fair value cannot be reliably measured.

Cash flows of assets supporting insurance and investment contract liabilities are matched within reasonable limits. Changes in the fair values of these assets are essentially offset by changes in the fair value of insurance and investment contract liabilities.

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time in accordance with investment accounting policies.

(c) Change in insurance contract liabilities

The change in insurance contract liabilities during the year was the result of the following business activities and changes in actuarial estimates:

	2015		
	Participating		
	Gross liability	Reinsurance assets	Net
Balance, beginning of year	**$ 42,893**	**$ (144)**	**$ 43,037**
Impact of new business	**23**	**–**	**23**
Normal change in force	**1,046**	**(70)**	**1,116**
Management action and changes in assumptions	**(276)**	**(192)**	**(84)**
Impact of foreign exchange rate changes	**2,158**	**3**	**2,155**
Balance, end of year	**$ 45,844**	**$ (403)**	**$ 46,247**

	Non-participating			
	Gross liability	Reinsurance assets	Net	Total Net
Balance, beginning of year	**$ 102,305**	**$ 5,295**	**$ 97,010**	**$ 140,047**
Impact of new business	**4,380**	**126**	**4,254**	**4,277**
Normal change in force	**(5,711)**	**(178)**	**(5,533)**	**(4,417)**
Management action and changes in assumptions	**(489)**	**(78)**	**(411)**	**(495)**
Business movement from/to external parties	**1,588**	**(2)**	**1,590**	**1,590**
Impact of foreign exchange rate changes	**10,575**	**371**	**10,204**	**12,359**
Balance, end of year	**$ 112,648**	**$ 5,534**	**$ 107,114**	**$ 153,361**

	2014		
	Participating		
	Gross liability	Reinsurance assets	Net
Balance, beginning of year	$ 39,663	$ (121)	$ 39,784
Impact of new business	20	–	20
Normal change in force	2,312	8	2,304
Management action and changes in assumptions	(42)	(32)	(10)
Impact of foreign exchange rate changes	940	1	939
Balance, end of year	$ 42,893	$ (144)	$ 43,037

	Non-participating			
	Gross liability	Reinsurance assets	Net	Total Net
Balance, beginning of year	$ 91,511	$ 5,191	$ 86,320	$ 126,104
Impact of new business	6,062	152	5,910	5,930
Normal change in force	2,588	162	2,426	4,730
Management action and changes in assumptions	(440)	(24)	(416)	(426)
Business movement from/to external parties	(100)	(25)	(75)	(75)
Impact of foreign exchange rate changes	2,684	(161)	2,845	3,784
Balance, end of year	$ 102,305	$ 5,295	$ 97,010	$ 140,047

Under fair value accounting, movement in the fair value of the supporting assets is a major factor in the movement of insurance contract liabilities. Changes in the fair value of assets are largely offset by corresponding changes in the fair value of liabilities. The change in the value of the insurance contract liabilities associated with the change in the value of the supporting assets is included in the normal change in force above.

On May 15, 2014, the Canadian Actuarial Standards Board published the Standards of Practice (Standards) effective October 15, 2014, reflecting revisions to economic reinvestment assumptions used in the valuation of insurance contract liabilities.

In 2015, the major contributors to the increase in net insurance contract liabilities were the impact of foreign exchange rate changes of $12,359, the impact of new business of $4,277, and business movement from/to external parties of $1,590, which was primarily due to the acquisition of Equitable Life's annuity business during the first quarter of 2015, partially offset by decreases due to the normal changes in the in force business of $4,417, which was primarily due to the change in fair value, and management actions and assumption changes of $495.

15. Insurance and Investment Contract Liabilities (cont'd)

Net non-participating insurance contract liabilities decreased by $411 in 2015 due to management actions and assumption changes including a $50 decrease in Canada, a $331 decrease in Europe and a $30 decrease in the United States.

The decrease in Canada was primarily due to updated mortality assumptions of $159, updated economic assumptions of $15 and updated expense and tax assumptions of $12, partially offset by increases due to updated policyholder behaviour assumptions of $85, and modeling refinements of $49.

The decrease in Europe was primarily due to updated longevity assumptions of $292, updated economic assumptions of $184, updated morbidity assumptions of $12 and updates to other provisions of $10, partially offset by increases due to updated mortality assumptions of $64, updated expense and tax assumptions of $55, modeling refinements of $37 and updated policyholder behaviour assumptions of $11.

The decrease in the United States was primarily due to updated economic assumptions of $30 and updated mortality assumptions of $8, partially offset by increases due to updated policyholder behaviour assumptions of $6.

Net participating insurance contract liabilities decreased by $84 in 2015 due to management actions and assumption changes. The decrease was primarily due to provisions for future policyholder dividends of $4,991, updated expense and tax assumptions of $545 and updated mortality assumptions of $412, partially offset by increases due to lower investment returns of $5,527, updated policyholder behaviour assumptions of $188, and modeling refinements of $149.

In 2014, the major contributors to the increase in net insurance contract liabilities were the impact of new business of $5,930, the normal change in the in force business of $4,730 which was primarily due to the change in fair value and the impact of foreign exchange rate changes of $3,784. This was partially offset by decreases due to management actions and assumption changes of $426.

Net non-participating insurance contract liabilities decreased by $416 in 2014 due to management actions and assumption changes including a $193 decrease in Canada, a $135 decrease in Europe and an $88 decrease in the United States.

The decrease in Canada was primarily due to modeling refinements of $83, updated economic assumptions including the change in Standards of $77, updated policyholder behaviour assumptions of $60, updated morbidity assumptions of $44, updated expenses and taxes of $10 and updates to other provisions of $6, partially offset by increases due to updated mortality assumptions of $62 and updated longevity assumptions of $25.

The decrease in Europe was primarily due to updated longevity assumptions of $110, updated economic assumptions including the change in Standards of $107, modeling refinements of $63 and updated morbidity assumptions of $22 partially offset by increases due to updated policyholder behaviour assumptions of $142, updated mortality assumptions of $20 and updates to other provisions of $5.

The decrease in the United States was primarily due to updated mortality assumptions of $103, updated policyholder behaviour assumptions of $67 and updated longevity assumptions of $6, partially offset by increases due to modeling refinements of $51 and updated economic assumptions including the change in Standards of $37.

Net participating insurance contract liabilities decreased by $10 in 2014 due to management actions and assumption changes. The decrease was primarily due to higher investment returns of $152, updated expenses and taxes of $144, modeling refinements of $68 and updated mortality assumptions of $20, partially offset by increases due to increased provisions for future policyholder dividends of $360, updated policyholder behaviour assumptions of $13 and updated morbidity assumptions of $1.

(d) Change in investment contract liabilities measured at fair value

	2015	2014
Balance, beginning of year	**$ 857**	$ 889
Normal change in force business	**(89)**	(78)
Investment experience	**18**	43
Management action and changes in assumptions	**7**	(10)
Business movement from/to external parties	**1,330**	–
Impact of foreign exchange rate changes	**57**	13
Balance, end of year	**$ 2,180**	$ 857

The carrying value of investment contract liabilities approximates their fair value. No investment contract liabilities have been reinsured.

In 2015, business movement from/to external parties is primarily due to a retrocession agreement to assume a block of investment contract liabilities in the form of structured settlements with fixed terms and amount. See note 6 for more information.

(e) Gross premiums written and gross policyholder benefits

(i) Premium Income

	2015	2014
Direct premiums	**$ 22,120**	$ 19,926
Assumed reinsurance premiums	**6,009**	4,760
Total	**$ 28,129**	$ 24,686

(ii) Policyholder Benefits

	2015	2014
Direct	**$ 15,880**	$ 14,892
Assumed reinsurance	**6,673**	4,471
Total	**$ 22,553**	$ 19,363

(f) Actuarial Assumptions

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

Mortality

A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update the Company's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. The actuarial standards were amended in 2011 to remove the requirement that, for life insurance, any reduction in liabilities due to mortality improvement assumptions be offset by an equal amount of provision for adverse deviation. Appropriate provisions have been made for future mortality deterioration on term insurance.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants.

Morbidity

The Company uses industry developed experience tables modified to reflect emerging Company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation.

Property and casualty reinsurance

Insurance contract liabilities for property and casualty reinsurance written by London Reinsurance Group (LRG), a subsidiary of London Life, are determined using accepted actuarial practices for property and casualty insurers in Canada. The insurance contract liabilities have been established using cash flow valuation techniques including discounting. The insurance contract liabilities are based on cession statements provided by ceding companies. In certain instances, LRG management adjusts cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. In addition, insurance contract liabilities also include an amount for incurred but not reported losses which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated, and adjustments to estimates are reflected in earnings. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in-depth analysis is undertaken of the cedant experience.

Investment returns

The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method to determine insurance contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (note 7(c)).

Expenses

Contractual policy expenses (e.g. sales commissions) and tax expenses are reflected on a best estimate basis. Expense studies for indirect operating expenses are updated regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. Improvements in unit operating expenses are not projected. An inflation assumption is incorporated in the estimate of future operating expenses consistent with the interest rate scenarios projected under the Canadian Asset Liability Method as inflation is assumed to be correlated with new money interest rates.

Policy termination

Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. The Company has significant exposures in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy renewal rates at the end of term for renewable term policies in Canada and Reinsurance. Industry experience has guided the Company's assumptions for these products as the Company's own experience is very limited.

Utilization of elective policy options

There are a wide range of elective options embedded in the policies issued by the Company. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee re-sets (segregated fund maturity guarantees). The assumed rates of utilization are based on Company or industry experience when it exists and when not on judgment considering incentives to utilize the option. Generally, whenever it is clearly in the best interests of an informed policyholder to utilize an option, then it is assumed to be elected.

Policyholder dividends and adjustable policy features

Future policyholder dividends and other adjustable policy features are included in the determination of insurance contract liabilities with the assumption that policyholder dividends or adjustable benefits will change in the future in response to the relevant experience. The dividend and policy adjustments are determined consistent with policyholders' reasonable expectations, such expectations being influenced by the participating policyholder dividend policies and/or policyholder communications, marketing material and past practice. It is the Company's expectation that changes will occur in policyholder dividend scales or adjustable benefits for participating or adjustable business respectively, corresponding to changes in the best estimate assumptions, resulting in an immaterial net change in insurance contract liabilities. Where underlying guarantees may limit the ability to pass all of this experience back to the policyholder, the impact of this non-adjustability impacting shareholders earnings is reflected in the impacts of changes in best estimate assumptions above.

(g) Risk Management

(i) Insurance risk

Insurance risk is the risk that the insured event occurs and that there are large deviations between expected and actual actuarial assumptions including mortality, persistency, longevity, morbidity, expense variations and investment returns.

The Company is in the business of accepting risk associated with insurance contract liabilities. The objective of the Company is to mitigate its exposure to risk arising from these contracts through product design, product and geographical diversification, the implementation of the Company's underwriting strategy guidelines, and through the use of reinsurance arrangements.

The following provides information about the Company's insurance contract liabilities sensitivities to management's best estimate of the approximate impact as a result of changes in assumptions used to determine the Company's liability associated with these contracts.

	Increase (decrease) in net earnings after-tax 2015	2014
Mortality – 2% increase	**$ (282)**	$ (238)
Annuitant mortality – 2% decrease	**$ (314)**	$ (272)
Morbidity – 5% adverse change	**$ (225)**	$ (220)
Investment returns		
Parallel shift in yield curve		
1% increase	**$ –**	$ –
1% decrease	**$ –**	$ –
Change in range of interest rates		
1% increase	**$ 109**	$ 41
1% decrease	**$ (430)**	$ (383)
Change in equity markets		
10% increase	**$ 45**	$ 34
10% decrease	**$ (108)**	$ (113)
Change in best estimate returns for equities		
1% increase	**$ 433**	$ 355
1% decrease	**$ (457)**	$ (372)
Expenses – 5% increase	**$ (108)**	$ (99)
Policy termination and renewal – 10% adverse change	**$ (602)**	$ (568)

Concentration risk may arise from geographic regions, accumulation of risks and market risk. The concentration of insurance risk before and after reinsurance by geographic region is described below.

	2015			2014		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Canada	**$ 60,234**	**$ 375**	**$ 59,859**	$ 59,275	$ 676	$ 58,599
United States	**39,903**	**355**	**39,548**	32,973	245	32,728
Europe	**60,535**	**4,401**	**56,134**	53,807	4,230	49,577
Total	**$ 160,672**	**$ 5,131**	**$ 155,541**	$ 146,055	$ 5,151	$ 140,904

(ii) Reinsurance risk

Maximum limits per insured life benefit amount (which vary by line of business) are established for life and health insurance, and reinsurance is purchased for amounts in excess of those limits.

Reinsurance costs and recoveries as defined by the reinsurance agreement are reflected in the valuation with these costs and recoveries being appropriately calibrated to the direct assumptions.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Certain of the reinsurance contracts are on a funds withheld basis where the Company retains the assets supporting the reinsured insurance contract liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

16. Financing Charges

Financing charges consist of the following:

	2015	2014
Operating charges:		
Interest on operating lines and short-term debt instruments	**$ 5**	$ 3
Financial charges:		
Interest on long-term debentures and other debt instruments	**260**	265
Interest on capital trust securities	**11**	11
Other	**27**	25
	298	301
Total	**$ 303**	$ 304

17. Debentures and Other Debt Instruments

	2015		2014	
	Carrying value	**Fair value**	Carrying value	Fair value
Short-term				
Commercial paper and other short-term debt instruments with interest rates from 0.213% to 0.223% (0.21% to 0.22% at December 31, 2014), unsecured	**$ 129**	**$ 129**	$ 114	$ 114
Revolving credit facility with interest equal to LIBOR plus 0.70% or U.S. Prime Rate Loan (U.S. $245; U.S. $355 at December 31, 2014), unsecured	**338**	**338**	412	412
Total short-term	**467**	**467**	526	526
Long-term				
Capital:				
Lifeco				
6.14% Debentures due March 21, 2018, unsecured	**200**	**220**	200	226
6.74% Debentures due November 24, 2031, unsecured	**192**	**264**	192	268
6.67% Debentures due March 21, 2033, unsecured	**391**	**527**	391	536
5.998% Debentures due November 16, 2039, unsecured	**342**	**438**	342	450
4.65% Debentures due August 13, 2020, unsecured	**499**	**561**	498	557
2.50% Debentures due April 18, 2023, unsecured, (500 euro)	**745**	**798**	695	773
	2,369	**2,808**	2,318	2,810
Canada Life				
6.40% subordinated debentures due December 11, 2028, unsecured	**100**	**127**	100	129
Irish Life				
5.25% 200 euro subordinated debentures due February 8, 2017, includes associated fixed to floating swap, unsecured	**311**	**324**	298	313
2.3% 50 euro mortgage payable, matured during 2015	**–**	**–**	70	70
	311	**324**	368	383
Great-West Life & Annuity Insurance Capital, LP				
6.625% Deferrable debentures due November 15, 2034, unsecured (U.S. $175)	**238**	**282**	200	230
Great-West Life & Annuity Insurance Capital, LP II				
Subordinated debentures due May 16, 2046, bearing an interest rate of 7.153% until May 16, 2016 and thereafter, a rate of 2.538% plus the 3-month LIBOR rate, unsecured (U.S. $300)	**414**	**412**	348	354
Great-West Lifeco Finance (Delaware) LP				
Subordinated debentures due June 21, 2067 bearing an interest rate of 5.691% until June 21, 2017 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1.49%, unsecured	**998**	**1,052**	997	1,087
Great-West Lifeco Finance (Delaware) LP II				
Subordinated debentures due June 26, 2068 bearing an interest rate of 7.127% until June 26, 2018 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 3.78%, unsecured	**498**	**560**	498	583
Total long-term	**4,928**	**5,565**	4,829	5,576
Total	**$ 5,395**	**$ 6,032**	$ 5,355	$ 6,102

18. Capital Trust Securities

	2015		2014	
	Carrying value	**Fair value**	Carrying value	Fair value
Canada Life Capital Trust (CLCT)				
7.529% due June 30, 2052, unsecured	**$ 150**	**$ 215**	$ 150	$ 220
Acquisition related fair value adjustment	**11**	**–**	12	–
Total	**$ 161**	**$ 215**	$ 162	$ 220

CLCT, a trust established by Canada Life, had issued $150 of Canada Life Capital Securities – Series B (CLiCS – Series B), the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of $150.

Distributions and interest on the capital trust securities are classified as financing charges on the Consolidated Statements of Earnings (note 16). The fair value for capital trust securities is determined by the bid-ask price. Refer to note 7 for financial instrument risk management disclosures.

Subject to regulatory approval, CLCT may redeem the CLiCS – Series B, in whole or in part, at any time.

19. Other Liabilities

	2015	2014
Pension and other post-employment benefits (note 24)	**$ 1,261**	$ 1,313
Bank overdraft	**479**	447
Deferred income reserve	**437**	429
Other	**1,190**	910
Total	**$ 3,367**	$ 3,099

Total other liabilities of $1,669 ($1,357 at December 31, 2014) are expected to be realized within 12 months from the reporting date. This amount excludes deferred income reserve, the changes in which are noted below.

Deferred income reserve	2015	2014
Balance, beginning of year	**$ 429**	$ 451
Additions	**42**	57
Amortization	**(39)**	(38)
Changes in foreign exchange	**51**	10
Disposals	**(46)**	(51)
Balance, end of year	**$ 437**	$ 429

20. Non-Controlling Interests

The Company had a controlling equity interest in Great-West Life, London Life, Canada Life, Great-West Financial, and Putnam at December 31, 2015 and December 31, 2014.

Non-controlling interests attributable to participating account surplus is the proportion of the equity attributable to the participating account of the Company's subsidiaries.

Non-controlling interests in subsidiaries includes Nippon Life's interest in PanAgora, a subsidiary of Putnam, and non-controlling interests for the issued and outstanding shares of Putnam and PanAgora held by the employees of their respective share-based compensation plans.

(a) The non-controlling interests of Great-West Life, London Life, Canada Life, Great-West Financial and Putnam and their subsidiaries reflected in the Consolidated Statements of Earnings and other comprehensive income are as follows:

	2015	2014
Net earnings attributable to participating account before policyholder dividends		
Great-West Life	**$ 177**	$ 162
London Life	**844**	837
Canada Life	**349**	314
Great-West Financial	**4**	4
	1,374	1,317
Policyholder dividends		
Great-West Life	**(150)**	(142)
London Life	**(805)**	(806)
Canada Life	**(301)**	(277)
Great-West Financial	**(4)**	(3)
	(1,260)	(1,228)
Net earnings – participating account	**114**	89
Non-controlling interests in subsidiaries	**9**	4
Total	**$ 123**	$ 93

The non-controlling interests of Great-West Life, London Life, Canada Life, Great-West Financial and Putnam and their subsidiaries recorded in other comprehensive income for the year ended December 31, 2015 was $57 ($33 for the year ended December 31, 2014).

(b) The carrying value of non-controlling interests consists of the following:

	2015	2014
Participating account surplus in subsidiaries:		
Great-West Life	**$ 607**	$ 579
London Life	**1,765**	1,720
Canada Life	**222**	167
Great-West Financial	**17**	14
Total	**$ 2,611**	$ 2,480
Non-controlling interests in subsidiaries	**$ 195**	$ 163

During 2014, London Life re-allocated $4 from the shareholder account to the London Life participating account. This adjustment was for the commutation of certain reinsurance transactions completed during the year. Under the terms of the 2012 re-allocation of the 11% investment in London Reinsurance Group (LRG) from the participating account to its shareholder account, this adjustment was required upon finalization of these transactions.

21. Share Capital

Authorized

Unlimited First Preferred Shares, Class A Preferred Shares and Second Preferred Shares

Unlimited Common Shares

Issued and outstanding and fully paid

	2015		2014	
	Number	Carrying value	Number	Carrying value
First Preferred Shares				
Series F, 5.90% Non-Cumulative	**7,740,032**	**$ 194**	7,740,032	$ 194
Series G, 5.20% Non-Cumulative	**12,000,000**	**300**	12,000,000	300
Series H, 4.85% Non-Cumulative	**12,000,000**	**300**	12,000,000	300
Series I, 4.50% Non-Cumulative	**12,000,000**	**300**	12,000,000	300
Series L, 5.65% Non-Cumulative	**6,800,000**	**170**	6,800,000	170
Series M, 5.80% Non-Cumulative	**6,000,000**	**150**	6,000,000	150
Series N, Non-Cumulative 5-Year Rate Reset	**8,524,422**	**213**	10,000,000	250
Series O, Non-Cumulative Floating Rate	**1,475,578**	**37**	–	–
Series P, 5.40% Non-Cumulative	**10,000,000**	**250**	10,000,000	250
Series Q, 5.15% Non-Cumulative	**8,000,000**	**200**	8,000,000	200
Series R, 4.80% Non-Cumulative	**8,000,000**	**200**	8,000,000	200
Series S, 5.25% Non-Cumulative	**8,000,000**	**200**	8,000,000	200
Total	**100,540,032**	**$ 2,514**	100,540,032	$ 2,514
Common shares				
Balance, beginning of year	**996,699,371**	**$ 7,102**	999,402,079	$ 7,112
Purchased and cancelled under Normal Course Issuer Bid	**(6,279,856)**	**(221)**	(3,024,050)	(95)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid	**–**	**176**	–	75
Exercised and issued under stock option plan	**2,930,816**	**99**	321,342	10
Balance, end of year	**993,350,331**	**$ 7,156**	996,699,371	$ 7,102

21. Share Capital (cont'd)

Preferred Shares

On December 31, 2015, at the election of certain holders of Series N, Non-Cumulative 5-Year Rate Reset First Preferred Shares, the Company converted 1,475,578 Series N Shares on a one-for-one basis into Series O, Non-Cumulative Floating Rate First Preferred Shares. The floating dividend rate for the Series O Shares issued on December 31, 2015 will be 1.742% for the period commencing on December 31, 2015 and ending on March 30, 2016. For the remaining Series N Shares, the annual fixed dividend rate for the five-year period commencing on December 31, 2015 and ending on December 30, 2020 will be 2.176% per annum. The remaining Series N Shares are redeemable at the option of the Company on December 31, 2020 and on December 31 every five years thereafter for $25.00 per share plus all declared and unpaid dividends to the date fixed for redemption. Subject to the Company's right of redemption and certain other restrictions on conversion described in the Series N share conditions, each Series N share is convertible into one Series O share at the option of the holders on December 31, 2020 and on December 31 every five years thereafter. The Series O Shares are redeemable at the option of the Company for $25.50 per share, unless the shares are redeemed on December 31, 2020 or on December 31 every five years thereafter in which case the redemption price will be $25.00 per share, together in each case with all declared and unpaid dividends to but excluding the date of redemption. Subject to the Company's right of redemption and certain other restrictions on conversion described in the Series O share conditions, each Series O share is convertible into one Series N share at the option of the holders on December 31, 2020 and on December 31 every five years thereafter.

On May 22, 2014 the Company issued 8,000,000 Series S, 5.25% Non-Cumulative First Preferred Shares at $25.00 per share. The shares are redeemable at the option of the Company on or after June 30, 2019 for $25.00 per share plus a premium if redeemed prior to June 30, 2023, together in each case with all declared and unpaid dividends up to but excluding the date of redemption. Transaction costs incurred in connection with the preferred share issue of $5 ($4 after-tax) were charged to accumulated surplus.

The Series F, 5.90% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25.00 per share, together with all declared and unpaid dividends to but excluding the date of redemption.

The Series G, 5.20% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25.00 per share, together with all declared and unpaid dividends to but excluding the date of redemption.

The Series H, 4.85% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25.00 per share, together with all declared and unpaid dividends to but excluding the date of redemption.

The Series I, 4.50% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25.00 per share, together in each case with all declared and unpaid dividends to but excluding the date of redemption.

The Series L, 5.65% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25.00 per share plus a premium if the shares are redeemed before December 31, 2018, together with all declared and unpaid dividends to but excluding the date of redemption.

The Series M, 5.80% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25.00 per share plus a premium if redeemed prior to March 31, 2019, together in each case with all declared and unpaid dividends to but excluding the date of redemption.

The Series P, 5.40% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after March 31, 2017 for $25.00 per share plus a premium if redeemed prior to March 31, 2021, together in each case with all declared and unpaid dividends up to but excluding the date fixed for redemption.

The Series Q, 5.15% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after September 30, 2017 for $25.00 per share plus a premium if redeemed prior to September 30, 2021, together in each case with all declared and unpaid dividends up to but excluding the date fixed for redemption.

The Series R, 4.80% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after December 31, 2017 for $25.00 per share plus a premium if redeemed prior to December 31, 2021, together in each case with all declared and unpaid dividends up to but excluding the date fixed for redemption.

The Series S, 5.25% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after June 30, 2019 for $25.00 per share plus a premium if redeemed prior to June 30, 2023, together in each case with all declared and unpaid dividends up to but excluding the date of redemption.

Common Shares

Normal Course Issuer Bid

During 2015, the Company repurchased and subsequently cancelled 6,279,856 common shares pursuant to its previous normal course issuer bid at a cost of $221 (3,024,050 during 2014 under the previous normal course issuer bid at a cost of $95). The Company's share capital was reduced by the average carrying value of the shares repurchased for cancellation. The excess paid over the average carrying value of stated capital was $176 and was recognized as a reduction to equity ($75 during 2014 under the previous normal course issuer bid).

Subsequent Event

On January 5, 2016, the Company announced a normal course issuer bid commencing January 8, 2016 and terminating January 7, 2017 to purchase for cancellation up to but not more than 8,000,000 of its common shares at market prices.

22. Capital Management

(a) Policies and Objectives

Managing capital is the continual process of establishing and maintaining the quantity and quality of capital appropriate for the Company and ensuring capital is deployed in a manner consistent with the expectations of the Company's stakeholders. For these purposes, the Board considers the key stakeholders to be the Company's shareholders, policyholders and holders of subordinated liabilities in addition to the relevant regulators in the various jurisdictions where the Company and its subsidiaries operate.

The Company manages its capital on both a consolidated basis as well as at the individual operating subsidiary level. The primary objectives of the Company's capital management strategy are:

- to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate;
- to maintain strong credit and financial strength ratings of the Company ensuring stable access to capital markets; and
- to provide an efficient capital structure to maximize shareholders value in the context of the Company's operational risks and strategic plans.

The Company has established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan.

The capital planning process is the responsibility of the Company's Chief Financial Officer. The capital plan is reviewed by the Executive Committee of the Board of Directors and approved by the Company's Board of Directors on an annual basis. The Board of Directors reviews and approves all capital transactions undertaken by management.

The target level of capitalization for the Company and its subsidiaries is assessed by considering various factors such as the probability of falling below the minimum regulatory capital requirements in the relevant operating jurisdiction, the views expressed by various credit rating agencies that provide financial strength and other ratings to the Company, and the desire to hold sufficient capital to be able to honour all policyholder and other obligations of the Company with a high degree of confidence.

(b) Regulatory Capital

In Canada, the Office of the Superintendent of Financial Institutions Canada has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements. For this purpose, various additions or deductions from capital are mandated by the guidelines issued by the Office of the Superintendent of Financial Institutions Canada. The following provides a summary of the Minimum Continuing Capital and Surplus Requirements information and ratios for Great-West Life:

	2015	2014
Adjusted Net Tier 1 Capital	**$ 13,195**	$ 11,132
Net Tier 2 Capital	**2,535**	2,530
Total Capital Available	**$ 15,730**	$ 13,662
Total Capital Required	**$ 6,599**	$ 6,092
Tier 1 Ratio	**200%**	183%
Total Ratio	**238%**	224%

At December 31, 2015, the Risk Based Capital ratio of Great-West Financial, Lifeco's regulated U.S. operating company was estimated to be 441% of the Company Action Level set by the National Association of Insurance Commissioners. Great-West Financial reports its Risk Based Capital ratio annually to U.S. insurance regulators.

In the United Kingdom, Canada Life Limited (CLL) is required to satisfy the capital resources requirements set out in the Integrated Prudential Sourcebook, part of the Prudential Regulatory Authority Handbook. The capital requirements are prescribed by a formulaic capital requirement (Pillar 1) and an individual capital adequacy framework which requires an entity to self-assess an appropriate amount of capital it should hold, based on the risks encountered from its business activities. At the end of 2015, CLL complied with the minimum capital resource requirements in the United Kingdom. During the year, the Company's European regulated insurance and reinsurance businesses have been preparing for the implementation of the new Solvency II regulations, effective January 1, 2016.

Other foreign operations and foreign subsidiaries of the Company are required to comply with local capital or solvency requirements in their respective jurisdictions. At December 31, 2015 and December 31, 2014 the Company maintained capital levels above the minimum local regulatory requirements in each of its other foreign operations.

23. Share-Based Payments

(a) The Company has a stock option plan (the Plan) pursuant to which options to subscribe for common shares of Lifeco may be granted to certain officers and employees of Lifeco and its affiliates. The Company's Compensation Committee (the Committee) administers the Plan and, subject to the specific provisions of the Plan, fixes the terms and conditions upon which options are granted. The exercise price of each option granted under the Plan is fixed by the Committee, but cannot under any circumstances be less than the weighted average trading price per Lifeco common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. Options vest over a period of five years, and have a maximum exercise period of ten years. Termination of employment may, in certain circumstances, result in forfeiture of the options, unless otherwise determined by the Committee. The maximum number of Lifeco common shares that may be issued under the Plan is currently 65,000,000.

During 2015, 2,793,820 common share options were granted (1,724,580 common share options were granted during 2014). The weighted average fair value of common share options granted during 2015 was $5.54 per option ($5.76 per option in 2014). The fair value of each common share option was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used for those options granted in 2015: dividend yield 3.66%, expected volatility 22.79%, risk-free interest rate 1.09%, and expected life of seven years.

The following summarizes the status of, and changes in, options outstanding and the weighted average exercise price:

	2015		2014	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding, beginning of year	**14,995,388**	**$ 29.18**	13,761,930	$ 28.89
Granted	**2,793,820**	**35.66**	1,724,580	31.12
Exercised	**(2,930,816)**	**28.71**	(321,342)	25.54
Forfeited/expired	**(234,560)**	**30.01**	(169,780)	32.11
Outstanding, end of year	**14,623,832**	**$ 30.50**	14,995,388	$ 29.18
Options exercisable at end of year	**9,395,978**	**$ 29.78**	10,557,926	$ 29.75

The weighted average share price at the date of exercise of stock options for the year ended December 31, 2015 was $35.88 ($30.62 in 2014).

Compensation expense due to the Plan transactions accounted for as equity-settled share-based payments of $10 after-tax in 2015 ($9 after-tax in 2014) arising from transactions in which the services received did not qualify for recognition as an asset, has been recognized in the Consolidated Statements of Earnings.

The following summarizes information on the ranges of exercise prices including weighted average remaining contractual life at December 31, 2015:

	Outstanding			Exercisable		
Exercise price ranges	**Options**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Options**	**Weighted average exercise price**	**Expiry**
$23.16 – $35.62	226,350	0.56	31.09	226,350	31.09	2016
$27.13 – $37.22	1,305,902	1.18	36.97	1,305,902	36.97	2017
$23.16 – $31.27	3,619,655	2.38	30.71	3,619,655	30.71	2018
$23.16 – $31.14	268,700	3.54	28.79	268,700	28.79	2019
$23.16 – $35.62	777,846	4.37	28.13	777,846	28.13	2020
$21.73 – $27.16	1,190,884	5.17	27.10	1,004,804	27.08	2021
$23.16	1,685,554	6.16	23.16	1,111,257	23.16	2022
$27.13 – $28.36	1,491,540	7.17	27.15	746,880	27.14	2023
$30.33 – $33.02	1,432,082	8.19	31.10	317,784	31.11	2024
$35.62 – $36.63	2,625,319	9.17	35.66	16,800	35.62	2025

(b) In order to promote a greater alignment of interests between Directors and the shareholders of the Company, the Company and certain of its affiliates have established voluntary Deferred Share Unit Plans and/or mandatory Deferred Share Unit Plans (the "Voluntary DSU Plans" and the "Mandatory DSU Plans" respectively) in which the Directors of the Company participate. Under the Mandatory DSU Plans, each Director who is a resident of Canada or the United States is required to receive 50% of his or her annual Board retainer in the form of Deferred Share Units (DSUs). Under the Voluntary DSU Plans, each Director may elect to receive the balance of his or her annual Board retainer (including Board Committee fees) and his or her attendance fees entirely in the form of DSUs, entirely in cash, or equally in cash and DSUs. In both cases the number of DSUs granted is determined by dividing the amount of remuneration payable to the Director by the weighted average trading price per Common Share on the Toronto Stock Exchange for the last five trading days of the preceding fiscal quarter (such weighted average trading price being the "value of a Deferred Share Unit"). Directors receive additional DSUs in respect of dividends payable on the Common Shares based on the value of a Deferred Share Unit at that time. DSUs are generally redeemable at the time that an individual ceases to be a Director by a lump sum cash payment, based on the value of the DSUs on the date of redemption. In 2015, $3 in directors fees were used to acquire Deferred Share Units ($2 in 2014).

(c) Certain employees of the Company are entitled to receive Performance Share Units (PSUs). Under these PSU plans, these employees are granted PSUs equivalent to the Company's common shares vesting over a three-year period. Employees receive additional PSUs in respect of dividends payable on the common shares based on the value of a PSU at that time. At the maturity date, employees receive cash representing the value of the PSU at this date. The Company uses the fair-value based method to account for the Performance Share Units granted to employees under the plan. For the year ended December 31, 2015, the Company recognized compensation expense of $12 ($10 in 2014) for the PSU plans recorded in operating and administrative expenses on the Consolidated Statements of Earnings. At December 31, 2015, the carrying value of the PSU liability is $22 ($19 in 2014) recorded within other liabilities.

(d) The Company's Employee Share Ownership Plan (ESOP) is a voluntary plan where eligible employees can contribute up to 5% of their previous year's eligible earnings to purchase common shares of Great-West Lifeco Inc. The Company matches 50% of the total employee contributions. The contributions from the Company vest immediately and are expensed. For the year ended December 31, 2015, the Company recognized compensation expense of $10 ($11 in 2014) for the ESOP recorded in operating and administrative expenses on the Consolidated Statements of Earnings.

(e) Putnam sponsors the Putnam Investments, LLC Equity Incentive Plan. Under the terms of the Equity Incentive Plan, Putnam is authorized to grant or sell Class B Shares of Putnam (the Putnam Class B Shares), subject to certain restrictions, and to grant options to purchase Putnam Class B Shares (collectively, the Awards) to certain senior management and key employees of Putnam at fair value at the time of the award. Fair value is determined under the valuation methodology outlined in the Equity Incentive Plan. Awards vest over a period of up to five years and are specified in the individual's award letter. Holders of Putnam Class B Shares are not entitled to vote other than in respect of certain matters in regards to the Equity Incentive Plan and have no rights to convert their shares into any other securities. The number of Putnam Class B Shares that may be subject to Awards under the Equity Incentive Plan is limited to 10,555,555.

Under the requirements of IFRS 2, *Share-based Payment*, prior to the amendment to the share plan, Class B shares were treated as cash-settled liabilities on the Consolidated Balance Sheets. During the period ended March 31, 2014, the Company amended the share plan, which resulted in Class B shares being treated as equity-settled, with compensation expense recorded at grant-date fair value (or modification-date fair value for those grants existing at such date), with a corresponding increase to equity.

During 2015, Putnam granted 1,525,218 (2,009,500 in 2014) restricted Class B common shares and no options in 2015 or 2014 to certain members of senior management and key employees.

Compensation expense recorded for the year ended December 31, 2015 related to restricted Class B common shares and Class B stock options earned was $36 ($46 in 2014) and is recorded in operating expenses on the Consolidated Statements of Earnings.

(f) Certain employees of PanAgora, a subsidiary of Putnam, are eligible to participate in the PanAgora Management Equity Plan under which Class C Shares of PanAgora and options and stock appreciation rights on Class C Shares of PanAgora may be issued. Holders of PanAgora Class C Shares are not entitled to vote and have no rights to convert their shares into any other securities. The number of PanAgora Class C Shares may not exceed 20% of the equity of PanAgora on a fully exercised and converted basis.

Class C shares were also treated as cash-settled liabilities on the Consolidated Balance Sheets prior to the amendment of the share plan. As of March 31, 2014, the Company amended the share plan, resulting in Class C shares to be treated as equity-settled, with compensation expense recorded at grant date fair value (or modification date fair value for those grants existing at such date), with a corresponding increase to equity.

Compensation expense recorded for the year ended December 31, 2015 related to restricted Class C Shares and stock appreciation rights was $11 in 2015 ($16 in 2014) and is included as a component of operating expenses in the Consolidated Statements of Earnings.

24. Pension Plans and Other Post-Employment Benefits

Characteristics, Funding and Risk

The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company's subsidiaries also maintain defined contribution pension plans for certain employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average pay. For most plans, active plan participants share in the cost by making contributions in respect of current service. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The determination of the defined benefit obligation reflects pension benefits in accordance with the terms of the plans. The assets supporting the funded pension plans are held in separate trusteed pension funds. The obligations for the wholly unfunded plans are included in other liabilities and are supported by general assets.

The significant defined benefit plans of the Company's subsidiaries are closed to new entrants. All new hires are eligible only for defined contribution benefits. The Company's defined benefit plan exposure will continue to be reduced in future years.

The defined contribution pension plans provide pension benefits based on accumulated employee and subsidiary Company contributions. Subsidiary Company contributions to these plans are a set percentage of employees' annual income and may be subject to certain vesting requirements.

The Company's subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. Retirees share in the cost of benefits through deductibles, co-insurance and caps on benefits. These plans are closed to new hires and were previously amended to limit which employees could become eligible to receive benefits. The amount of some of the post-employment benefits other than pensions depends on future cost escalation. These post-employment benefits are not pre-funded and the amount of the obligation for these benefits is included in other liabilities and is supported by general assets.

The Company's subsidiaries have pension and benefit committees or a trusteed arrangement that provides oversight for the benefit plans of the Company's subsidiaries. The benefit plans are monitored on an ongoing basis to assess the benefit, funding and investment policies, financial status, and funding requirements of the Company's subsidiares. Significant changes to the subsidiary Company's benefit plans require approval from that Company's Board of Directors.

The Company's subsidiaries' funding policy for the funded pension plans is to make contributions equal to or greater than those required by the applicable regulations and plan provisions that govern the funding of the plans. Where funded plans have a net defined benefit pension plan asset, the Company determines if an economic benefit exists in the form of potential reductions in future contributions by the Company and in the form of surplus refunds, where permitted by applicable regulation and plan provisions.

By their design, the defined benefit plans expose the Company to the typical risks faced by defined benefit plans such as investment performance, changes to the discount rates used to value the obligations, longevity of plan members, and future inflation. Pension and benefit risk is managed by regular monitoring of the plans, applicable regulations and other factors that could impact the expenses and cash flows of the Company.

The following reflects the financial position of the Company's subsidiaries contributory and non-contributory defined benefit plans:

(a) Plan Assets, Benefit Obligation and Funded Status

	Defined benefit pension plans		Other post-employment benefits	
	2015	2014	**2015**	2014
Change in fair value of plan assets				
Fair value of plan assets, beginning of year	**$ 5,628**	$ 5,053	**$ –**	$ –
Interest income	**200**	236	**–**	–
Actual return over interest income	**87**	429	**–**	–
Employer contributions	**104**	138	**19**	18
Employee contributions	**21**	21	**–**	–
Benefits paid	**(213)**	(220)	**(19)**	(18)
Administrative expenses	**(9)**	(6)	**–**	–
Net transfer in	**(2)**	1	**–**	–
Foreign exchange rate changes	**277**	(24)	**–**	–
Fair value of plan assets, end of year	**$ 6,093**	$ 5,628	**$ –**	$ –
Change in defined benefit obligation				
Defined benefit obligation, beginning of year	**$ 6,248**	$ 5,164	**$ 395**	$ 386
Reclassification of liability	**–**	(29)	**–**	–
Current service cost	**138**	112	**2**	2
Interest cost	**221**	237	**15**	18
Employee contributions	**21**	21	**–**	–
Benefits paid	**(213)**	(220)	**(19)**	(18)
Plan amendments	**15**	21	**–**	(1)
Actuarial loss (gain) on financial assumption changes	**(135)**	855	**(3)**	33
Actuarial loss (gain) on demographic assumption changes	**(7)**	97	**(6)**	(16)
Actuarial loss (gain) arising from member experience	**1**	(1)	**6**	(13)
Business acquisitions	**–**	–	**–**	3
Net transfer in	**(2)**	1	**–**	–
Foreign exchange rate changes	**340**	(10)	**4**	1
Defined benefit obligation, end of year	**$ 6,627**	$ 6,248	**$ 394**	$ 395
Asset (liability) recognized in the Consolidated Balance Sheets				
Funded status of plans – surplus (deficit)	**$ (534)**	$ (620)	**$ (394)**	$ (395)
Unrecognized amount due to asset ceiling	**(83)**	(23)	**–**	–
Asset (liability) recognized in the Consolidated Balance Sheets	**$ (617)**	$ (643)	**$ (394)**	$ (395)
Recorded in:				
Other assets (note 13)	**$ 250**	$ 275	**$ –**	$ –
Other liabilities (note 19)	**(867)**	(918)	**(394)**	(395)
Asset (liability) recognized in the Consolidated Balance Sheets	**$ (617)**	$ (643)	**$ (394)**	$ (395)
Analysis of defined benefit obligation				
Wholly or partly funded plans	**$ 6,336**	$ 5,961	**$ –**	$ –
Wholly unfunded plans	**$ 291**	$ 287	**$ 394**	$ 395

24. Pension Plans and Other Post-Employment Benefits (cont'd)

Under International Financial Reporting Interpretations Committee (IFRIC) 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, the Company must assess whether each pension plan's asset has economic benefit to the Company through future contribution reductions or refunds; in the event the Company is not entitled to a benefit, a limit or 'asset ceiling' is required on the balance. The following provides a breakdown of the changes in the asset ceiling:

	Defined benefit pension plans	
	2015	2014
Change in asset ceiling		
Asset ceiling, beginning of year	$ 23	$ 44
Interest on beginning of period asset ceiling	4	2
Change in asset ceiling	56	(23)
Asset ceiling, end of year	$ 83	$ 23

(b) Pension and Other Post-Employment Benefits Expense

The total pension and other post-employment benefit expense included in operating expenses and other comprehensive income are as follows:

	All pension plans	
	2015	2014
Defined benefit current service cost	$ 159	$ 133
Defined contribution current service cost	54	42
Employee contributions	(21)	(21)
Employer current service cost	192	154
Administrative expense	7	6
Plan amendments	15	3
Net interest cost	25	3
Pension expense – profit or loss	239	166
Actuarial (gain) loss recognized	(141)	951
Return on assets greater than assumed	(85)	(429)
Change in the asset ceiling	56	(23)
Actuarial loss – investment in associate (1)	6	20
Pension re-measurements – other comprehensive (income) loss	(164)	519
Total pension expense including re-measurements	$ 75	$ 685

(1) This includes the Company's share of pension plan re-measurements for an investment in an associate accounted for under the equity method.

	Other post-employment benefits	
	2015	2014
Employer current service cost	$ 2	$ 2
Plan amendments	–	(1)
Net interest cost	15	18
Other post-employment benefits expense – profit or loss	17	19
Actuarial (gain) loss recognized	(3)	4
Other post-employment benefits re-measurements – other comprehensive (income) loss	(3)	4
Total other post-employment benefits expense including re-measurements	$ 14	$ 23

(c) Asset Allocation by Major Category Weighted by Plan Assets

	Defined benefit pension plans	
	2015	2014
Equity securities	51%	51%
Debt securities	36%	38%
Real estate	6%	5%
Cash and cash equivalents	7%	6%
Total	100%	100%

No plan assets are directly invested in the Company's or related parties' securities. Plan assets include investments in segregated funds and other funds managed by subsidiaries of the Company of $4,764 at December 31, 2015 and $4,478 at December 31, 2014, of which $4,701 ($4,445 at December 31, 2014) are included in the Consolidated Balance Sheets. Plan assets do not include any property occupied or other assets used by the Company.

(d) Details of Defined Benefit Obligation

(i) Portion of Defined Benefit Obligation Subject to Future Salary and Pension Increases

	Defined benefit pension plans		Other post-employment benefits	
	2015	2014	**2015**	2014
Benefit obligation without future salary increases	**$ 5,987**	$ 5,595	**$ 394**	$ 395
Effect of assumed future salary increases	**640**	653	**–**	–
Defined benefit obligation	**$ 6,627**	$ 6,248	**$ 394**	$ 395

The portion of defined benefit obligation without future pension increases is $6,053 with the effect of assumed future pension increases of $574. The other post-employment benefits are not subject to future pension increases.

(ii) Maturity Profile of Plan Membership

	Defined benefit pension plans		Other post-employment benefits	
	2015	2014	**2015**	2014
Actives	**45%**	45%	**22%**	23%
Deferred vesteds	**17%**	17%	**–%**	–%
Retirees	**38%**	38%	**78%**	77%
Total	**100%**	100%	**100%**	100%
Weighted average duration of defined benefit obligation	**18.9 years**	19.3 years	**12.4 years**	12.8 years

(e) Cash Flow Information

	Pension plans	Other post-employment benefits	Total
Expected employer contributions for 2016:			
Funded (wholly or partly) defined benefit plans	$ 105	$ –	$ 105
Unfunded plans	16	19	35
Defined contribution plans	58	–	58
Total	**$ 179**	**$ 19**	**$ 198**

(f) Actuarial Assumptions and Sensitivities

(i) Actuarial Assumptions

	Defined benefit pension plans		Other post-employment benefits	
	2015	2014	**2015**	2014
To determine benefit cost:				
Discount rate – past service liabilities	**3.5%**	4.7%	**3.9%**	4.8%
Discount rate – future service liabilities	**3.6%**	4.7%	**4.0%**	4.8%
Rate of compensation increase	**3.2%**	3.3%	**–**	–
Future pension increases (1)	**1.1%**	1.8%	**–**	–
To determine defined benefit obligation:				
Discount rate – past service liabilities	**3.8%**	3.5%	**4.1%**	3.9%
Rate of compensation increase	**3.2%**	3.2%	**–**	–
Future pension increases (1)	**1.5%**	1.1%	**–**	–
Medical cost trend rates:				
Initial medical cost trend rate			**5.2%**	5.2%
Ultimate medical cost trend rate			**4.5%**	4.5%
Year ultimate trend rate is reached			**2029**	2029

(1) Represents the weighted average of plans subject to future pension increases.

24. Pension Plans and Other Post-Employment Benefits (cont'd)

(ii) Sample Life Expectancies Based on Mortality Assumptions

	Defined benefit pension plans		Other post-employment benefits	
	2015	2014	**2015**	2014
Sample life expectancies based on mortality assumption:				
Male				
Age 65 in fiscal year	**22.8**	22.8	**22.2**	22.2
Age 65 in fiscal year + 30 years	**25.2**	25.2	**23.9**	23.8
Female				
Age 65 in fiscal year	**24.7**	24.8	**24.7**	24.7
Age 65 in fiscal year + 30 years	**26.9**	26.9	**26.2**	26.1

The period of time over which benefits are assumed to be paid is based on best estimates of future mortality, including allowances for mortality improvements. This estimate is subject to considerable uncertainty, and judgment is required in establishing this assumption. As mortality assumptions are significant in measuring the defined benefit obligation, the mortality assumptions applied by the Company take into consideration such factors as age, gender and geographic location, in addition to an estimation of future improvements in longevity.

The mortality tables are reviewed at least annually, and assumptions are in accordance with accepted actuarial practice. Emerging plan experience is reviewed and considered in establishing the best estimate for future mortality.

The calculation of the defined benefit obligation is sensitive to the mortality assumptions. The effect of a one-year increase in life expectancy would be an increase in the defined benefit obligation of $182 for the defined benefit pension plans and $15 for other post-employment benefits.

(iii) Impact of Changes to Assumptions on Defined Benefit Obligation

	1% increase		1% decrease	
	2015	2014	**2015**	2014
Defined benefit pension plans:				
Impact of a change to the discount rate	**$ (1,026)**	$ (992)	**$ 1,353**	$ 1,309
Impact of a change to the rate of compensation increase	**314**	334	**(272)**	(276)
Impact of a change to the rate of inflation	**551**	593	**(536)**	(474)
Other post-employment benefits:				
Impact of a change to assumed medical cost trend rates	**34**	34	**(28)**	(29)
Impact of a change to the discount rate	**(44)**	(45)	**54**	55

To measure the impact of a change in an assumption, all other assumptions were held constant. It would be expected that there would be interaction between at least some of the assumptions.

25. Earnings Per Common Share

The following provides the reconciliation between basic and diluted earnings per common share:

	2015	2014
Earnings		
Net earnings	**$ 2,888**	$ 2,668
Preferred share dividends	**(126)**	(122)
Net earnings – common shareholders	**$ 2,762**	$ 2,546
Number of common shares		
Average number of common shares outstanding	**995,609,685**	998,614,069
Add:		
– Potential exercise of outstanding stock options	**2,245,143**	1,272,650
Average number of common shares outstanding – diluted basis	**997,854,828**	999,886,719
Basic earnings per common share	**$ 2.774**	$ 2.549
Diluted earnings per common share	**$ 2.768**	$ 2.546
Dividends per common share	**$ 1.304**	$ 1.230

26. Accumulated Other Comprehensive Income

2015	Unrealized foreign exchange gains on translation of foreign operations	Unrealized foreign exchange gains (losses) on euro debt designated as hedge of the net investment in foreign operations	Unrealized gains (losses) on available-for-sale assets	Unrealized gains (losses) on cash flow hedges	Re-measurements on defined benefit pension and other post-employment benefit plans	Total	Non-controlling interest	Shareholders
Balance, beginning of year	**$ 953**	**$ (17)**	**$ 223**	**$ (122)**	**$ (611)**	**$ 426**	**$ (48)**	**$ 378**
Other comprehensive income (loss)	**2,058**	**(50)**	**(124)**	**(249)**	**167**	**1,802**	**(62)**	**1,740**
Income tax	**–**	**9**	**24**	**94**	**(32)**	**95**	**5**	**100**
	2,058	**(41)**	**(100)**	**(155)**	**135**	**1,897**	**(57)**	**1,840**
Balance, end of year	**$ 3,011**	**$ (58)**	**$ 123**	**$ (277)**	**$ (476)**	**$ 2,323**	**$ (105)**	**$ 2,218**

2014	Unrealized foreign exchange gains on translation of foreign operations	Unrealized foreign exchange gains (losses) on euro debt designated as hedge of the net investment in foreign operations	Unrealized gains (losses) on available-for-sale assets	Unrealized gains (losses) on cash flow hedges	Re-measurements on defined benefit pension and other post-employment benefit plans	Total	Non-controlling interest	Shareholders
Balance, beginning of year	$ 414	$ (52)	$ 14	$ (57)	$ (218)	$ 101	$ (15)	$ 86
Other comprehensive income (loss)	539	35	261	(105)	(523)	207	(45)	162
Income tax	–	–	(52)	40	130	118	12	130
	539	35	209	(65)	(393)	325	(33)	292
Balance, end of year	$ 953	$ (17)	$ 223	$ (122)	$ (611)	$ 426	$ (48)	$ 378

27. Related Party Transactions

Power Financial, which is incorporated and domiciled in Canada, is the Company's parent and has voting control of the Company. The Company is related to other members of the Power Financial group including IGM Financial Inc., a company in the financial services sector along with its subsidiaries Investors Group, Mackenzie Financial and Investment Planning Council and Pargesa, a holding company with substantial holdings in a diversified industrial group based in Europe.

(a) Principal subsidiaries

The financial statements of the Company include the operations of the following subsidiaries:

Company	Incorporated in	Primary business operation	% Held
The Great-West Life Assurance Company	Canada	Insurance and wealth management	100.00%
London Life Insurance Company	Canada	Insurance and wealth management	100.00%
The Canada Life Assurance Company	Canada	Insurance and wealth management	100.00%
Irish Life Group Limited	Ireland	Insurance and wealth management	100.00%
Great-West Life & Annuity Insurance Company	United States	Insurance and wealth management	100.00%
Putnam Investments, LLC	United States	Financial services	100.00%[1]

(1) Lifeco holds 100% of the voting shares and 95.2% of the total outstanding shares.

27. Related Party Transactions (cont'd)

(b) Transactions with related parties included in the consolidated financial statements

In the normal course of business, Great-West Life and Putnam enter into various transactions with related companies which include providing insurance benefits and sub-advisory services to other companies within the Power Financial group of companies. In all cases, transactions were at market terms and conditions.

During the year, Great-West Life provided to and received from IGM and its subsidiaries, a member of the Power Financial group of companies, certain administrative services. Great-West Life also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM. All transactions were provided at market terms and conditions.

The Company held debentures issued by IGM; the interest rates and maturity dates are as follows:

	2015	2014
6.65%, matures December 13, 2027	$ 16	$ 16
7.45%, matures May 9, 2031	14	14
7.00%, matures December 31, 2032	13	13
Total	$ 43	$ 43

During 2015, Great-West Life, London Life, and segregated funds maintained by London Life purchased residential mortgages of $206 from IGM ($184 in 2014).

The Company provides asset management, employee benefits and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of the Company and its subsidiaries.

There were no significant outstanding loans or guarantees at the Balance Sheets date and no loans or guarantees issued during 2015 or 2014. There were no provisions for uncollectible amounts from related parties during 2015 and 2014.

(c) Key management compensation

Key management personnel constitute those individuals that have the authority and responsibility for planning, directing and controlling the activities of Lifeco, directly or indirectly, including any Director. The individuals that comprise the key management personnel are the Board of Directors as well as certain key management and officers.

The following describes all compensation paid to, awarded to, or earned by each of the key management personnel for services rendered in all capacities to the Company and its subsidiaries:

	2015	2014
Salary	$ 14	$ 11
Share-based awards	11	4
Option-based awards	5	2
Annual non-equity incentive plan compensation	20	20
Pension value	8	9
Total	$ 58	$ 46

28. Income Taxes

(a) Current income tax receivable (payable)

	2015	2014
Balance, beginning of year	$ (689)	$ (816)
Current income tax expense	(296)	(381)
Recorded in other comprehensive income	2	(29)
Payments made on account	361	490
Other	199	47
Balance, end of year	$ (423)	$ (689)
Recorded as:		
Current income taxes – asset	$ 69	$ 48
Current income taxes – liability	(492)	(737)
Total	$ (423)	$ (689)

(b) Deferred income taxes consist of the following losses carried forward and deductible (taxable) temporary differences:

	2015	2014
Insurance and investment contract liabilities	**$ (1,126)**	$ (594)
Portfolio assets [1]	**(636)**	(835)
Losses carried forward	**1,784**	1,494
Intangible assets	**(303)**	(153)
Other [1]	**513**	269
Net deferred income tax asset	**$ 232**	$ 181
Balance, beginning of year	**$ 181**	$ 222
Amounts recorded in:		
Statement of net earnings	**(164)**	(247)
Statement of other comprehensive income	**93**	147
Statement of changes in equity	**2**	1
Insurance and investment contract liabilities	**(9)**	(18)
Foreign exchange rate changes	**129**	76
Balance, end of year	**$ 232**	$ 181
Recorded as:		
Deferred tax assets	**$ 1,891**	$ 1,631
Deferred tax liabilities	**(1,659)**	(1,450)
Total	**$ 232**	$ 181

(1) During the year, the Company reclassified $39 of deferred income tax asset from portfolio assets to other at December 31, 2014 to conform to the current year's presentation.

A deferred income tax asset is recognized for deductible temporary differences and unused losses and carryforwards only to the extent that realization of the related income tax benefit through future taxable profits is probable.

Recognition is based on the fact that it is probable that the entity will have taxable profits and/or tax planning opportunities available to allow the deferred income tax asset to be utilized. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred income tax assets. The Company's annual financial planning process provides a significant basis for the measurement of deferred income tax assets.

Management assesses the recoverability of the deferred income tax asset carrying values based on future years' taxable income projections and believes the carrying values of the deferred income tax assets at December 31, 2015 are recoverable.

At December 31, 2015 the Company had tax loss carryforwards totaling $5,073 ($4,200 in 2014). Of this amount, $4,828 expires between 2016 and 2035, while $245 has no expiry date. The Company will realize this benefit in future years through a reduction in current income taxes payable.

A deferred income tax liability has not been recognized in respect of the temporary differences associated with investments in subsidiaries, branches and associates as the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future.

One of the Company's subsidiaries has had a history of losses. The subsidiary has a net deferred income tax asset (DTA) balance of $1,303 (U.S. $944) as at December 31, 2015 comprised principally of net operating losses and future deductions related to goodwill which has been, in prior years, impaired for book accounting purposes. Management has concluded that it is probable that the subsidiary and other historically profitable subsidiaries with which it files or intends to file a consolidated U.S. income tax return will generate sufficient taxable income against which the unused U.S. losses and deductions will be utilized. The future taxable income is derived principally from tax planning strategies, some of which have already been executed. The DTA excludes the tax effect of certain state net operating losses, in the amount of $90 (U.S. $65); and federal charitable contributions of $14 (U.S. $10).

28. Income Taxes (cont'd)

(c) Income tax expense for the year comprises current and deferred tax:

(i) Current income tax

	2015	2014
Current income tax expense	$ **307**	$ 387
Previously unrecognized tax loss; tax credit or temporary difference	**–**	27
Other	**(11)**	(33)
Total current income tax	$ **296**	$ 381

(ii) Deferred income tax

	2015	2014
Origination and reversal of temporary difference [1]	$ **199**	$ 259
Changes in tax rates or imposition of new taxes	**1**	13
Write-down or reversal of previous write-down of deferred tax assets [1]	**–**	(1)
Previously unrecognized tax loss; tax credit or temporary difference	**(7)**	(29)
Other	**(29)**	5
Total deferred income tax	$ **164**	$ 247
Total income tax expense	$ **460**	$ 628

(1) During the year, the Company reclassified $61 of deferred income tax from origination and reversal of temporary difference to write-down or reversal of previous write-down of deferred tax assets for the year ended December 31, 2014 to conform to the current year's presentation.

(iii) Income tax recorded in other comprehensive income (note 26)

	2015	2014
Current income tax	$ **(2)**	$ 29
Deferred income tax	**(93)**	(147)
Total	$ **(95)**	$ (118)

(iv) Income tax recorded in equity

	2015	2014
Current income tax	$ **–**	$ –
Deferred income tax	**(2)**	(1)
Total	$ **(2)**	$ (1)

(d) The effective income tax rate reported in the Consolidated Statements of Earnings varies from the income tax rate of 26.75% for the year ended December 31, 2015 (26.50% for the year ended December 31, 2014) for the following items:

	2015		2014	
Earnings before income taxes	$ **3,471**		$ 3,389	
Combined basic Canadian federal and provincial tax rate	**929**	**26.75%**	898	26.50%
Increase (decrease) in the income tax rate resulting from:				
Non-taxable investment income	**(219)**	**(6.31)%**	(150)	(4.43)%
Lower effective income tax rates on income not subject to tax in Canada	**(228)**	**(6.56)%**	(172)	(5.09)%
Other	**(23)**	**(0.66)%**	52	1.53%
Impact of rate changes on future income taxes	**1**	**0.04%**	–	–%
Total income tax expense and effective income tax rate	$ **460**	**13.26%**	$ 628	18.51%

There are no income tax consequences attached to the payment of dividends by the Company to its shareholders.

29. Operating and Administrative Expenses

	2015	2014
Salaries and other employee benefits	$ **2,923**	$ 2,544
General and administrative	**1,463**	1,129
Amortization of fixed assets	**80**	68
Total	$ **4,466**	$ 3,741

30. Derivative Financial Instruments

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Company is an end-user of various derivative financial instruments. It is the Company's policy to transact in derivatives only with the most creditworthy financial intermediaries. Note 7 illustrates the credit quality of the Company's exposure to counterparties. As at December 31, 2015, the Company received assets of $107 ($52 in 2014) as collateral for derivative contracts from counterparties and pledged assets of $608 ($273 in 2014) as collateral for derivative contracts to counterparties.

(a) The following summarizes the Company's derivative portfolio and related credit exposure using the following definitions of risk as prescribed by the Office of the Superintendent of Financial Institutions Canada:

Maximum Credit Risk	The total replacement cost of all derivative contracts with positive values.
Future Credit Exposure	The potential future credit exposure is calculated based on a formula prescribed by the Office of the Superintendent of Financial Institutions Canada. The factors prescribed by the Office of the Superintendent of Financial Institutions Canada for this calculation are based on derivative type and duration.
Credit Risk Equivalent	The sum of maximum credit risk and the potential future credit exposure less any collateral held.
Risk Weighted Equivalent	Represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by the Office of the Superintendent of Financial Institutions Canada.

	2015				
	Notional amount	**Maximum credit risk**	**Future credit exposure**	**Credit risk equivalent (1)**	**Risk weighted equivalent**
Interest rate contracts					
Futures – long	$ 2	$ –	$ –	$ –	$ –
Futures – short	160	–	–	–	–
Swaps	3,085	179	29	208	15
Options purchased	342	49	2	38	5
	3,589	228	31	246	20
Foreign exchange contracts					
Forward contracts	1,501	84	37	59	7
Cross-currency swaps	10,804	143	692	803	61
	12,305	227	729	862	68
Other derivative contracts					
Equity contracts	68	2	4	7	–
Futures – long	13	–	–	–	–
Futures – short	606	4	–	–	–
Other forward contracts	131	–	–	–	–
	818	6	4	7	–
Total	$ 16,712	$ 461	$ 764	$ 1,115	$ 88

(1) Credit risk equivalent amounts are presented net of collateral received ($107).

	2014				
	Notional amount	Maximum credit risk	Future credit exposure	Credit risk equivalent (1)	Risk weighted equivalent
Interest rate contracts					
Futures – long	$ 10	$ –	$ –	$ –	$ –
Futures – short	12	–	–	–	–
Swaps	3,497	389	28	414	42
Options purchased	478	50	2	37	5
	3,997	439	30	451	47
Foreign exchange contracts					
Forward contracts	1,242	41	32	46	5
Cross-currency swaps	9,631	169	605	767	56
	10,873	210	637	813	61
Other derivative contracts					
Equity contracts	156	2	10	13	1
Futures – long	10	–	–	–	–
Futures – short	317	1	–	–	–
Other forward contracts	107	–	–	–	–
	590	3	10	13	1
Total	$ 15,460	$ 652	$ 677	$ 1,277	$ 109

(1) Credit risk equivalent amounts are presented net of collateral received ($52).

30. Derivative Financial Instruments (cont'd)

(b) The following provides the notional amount, term to maturity and estimated fair value of the Company's derivative portfolio by category:

	2015				
	Notional Amount				Total estimated fair value
	1 year or less	Over 1–5 years	Over 5 years	Total	
Derivatives not designated as accounting hedges					
Interest rate contracts					
Futures – long	$ 2	$ –	$ –	$ 2	$ –
Futures – short	79	80	–	159	–
Swaps	619	847	1,589	3,055	130
Options purchased	49	190	103	342	49
	749	1,117	1,692	3,558	179
Foreign exchange contracts					
Forward contracts	948	–	–	948	(28)
Cross-currency swaps	426	2,138	6,740	9,304	(1,885)
	1,374	2,138	6,740	10,252	(1,913)
Other derivative contracts					
Equity contracts	68	–	–	68	2
Futures – long	13	–	–	13	–
Futures – short	606	–	–	606	1
Other forward contracts	131	–	–	131	–
	818	–	–	818	3
Cash flow hedges					
Interest rate contracts					
Swaps	–	–	31	31	12
Foreign exchange contracts					
Cross-currency swaps	–	1,500	–	1,500	(524)
Net investment hedges					
Foreign exchange forward contracts	–	553	–	553	80
Total	$ 2,941	$ 5,308	$ 8,463	$ 16,712	$ (2,163)

	2014				
	Notional Amount				Total estimated fair value
	1 year or less	Over 1–5 years	Over 5 years	Total	
Derivatives not designated as accounting hedges					
Interest rate contracts					
Futures – long	$ 10	$ –	$ –	$ 10	$ –
Futures – short	12	–	–	12	–
Swaps	939	1,043	1,389	3,371	340
Options purchased	218	182	78	478	50
	1,179	1,225	1,467	3,871	390
Foreign exchange contracts					
Forward contracts	751	–	–	751	(14)
Cross-currency swaps	354	2,285	5,492	8,131	(751)
	1,105	2,285	5,492	8,882	(765)
Other derivative contracts					
Equity contracts	156	–	–	156	(3)
Futures – long	10	–	–	10	–
Futures – short	317	–	–	317	(2)
Other forward contracts	107	–	–	107	–
	590	–	–	590	(5)
Cash flow hedges					
Interest rate contracts					
Swaps	–	–	36	36	14
Foreign exchange contracts					
Cross-currency swaps	–	1,500	–	1,500	(219)
Net investment hedges [(1)]					
Foreign exchange forward	–	491	–	491	41
Fair value hedges					
Interest rate contracts					
Swaps	–	18	72	90	1
Total	$ 2,874	$ 5,519	$ 7,067	$ 15,460	$ (543)

(1) During the year, the Company reclassified the contract now presented in net investment hedges from foreign exchange contracts – forward contracts to conform to the current year's presentation.

Futures contracts included in the above are exchange traded contracts; all other contracts are over-the-counter.

(c) ***Interest Rate Contracts***

Interest rate swaps, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with investment activities and insurance and investment contract liabilities. Interest-rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Call options grant the Company the right to enter into a swap with predetermined fixed-rate payments over a predetermined time period on the exercise date. Call options are used to manage the variability in future interest payments due to a change in credited interest rates and the related potential change in cash flows due to surrenders. Call options are also used to hedge minimum rate guarantees.

Foreign Exchange Contracts

Cross-currency swaps are used in combination with other investments to manage foreign currency risk associated with investment activities, and insurance and investment contract liabilities. Under these swaps principal amounts and fixed or floating interest payments may be exchanged in different currencies. The Company also enters into certain foreign exchange forward contracts to hedge certain product liabilities.

The ineffective portion of the cash flow hedges during 2015, which includes interest rate contracts and foreign exchange contracts, and the anticipated net gains (losses) reclassified out of accumulated other comprehensive income within the next twelve months is $1. The maximum time frame for which variable cash flows are hedged is 30 years.

Other Derivative Contracts

Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to periodically hedge the market risk associated with certain fee income. Equity put options are used to manage potential credit risk impact of significant declines in certain equity markets.

31. Legal Provisions and Contingent Liabilities

The Company and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Company. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Company. Actual results could differ from management's best estimates.

A subsidiary of the Company, Canada Life, has declared four partial wind-ups in respect of an Ontario defined benefit pension plan. The partial wind-ups will involve the distribution of the amount of actuarial surplus attributable to the wind-ups. A settlement of the class action proceeding commenced in Ontario relating to the partial wind-ups received court approval in 2014. The settlement remains subject to regulatory approval. The provision has been adjusted to $21 as at December 31, 2015.

A subsidiary of the Company, Putnam Advisory Company, LLC, is a defendant in an action in relation to its role as collateral manager of a collateralized debt obligation brought by an institution involved in the collateralized debt obligation. On April 28, 2014, the matter was dismissed. On July 2, 2014, the complainant filed an appeal of the dismissal and on April 15, 2015 the United States Court of Appeals for the Second Circuit issued its decision overturning the dismissal of the action and remanding the matter for further proceedings, which are ongoing. The resolution of this matter will not have a material adverse effect on the consolidated financial position of the Company.

Subsidiaries of the Company in the United States are defendants in proposed class actions relating to the administration of their staff retirement plans, or to the costs and features of certain of their retirement or fund products. These actions are at their early stages. Management believes the claims are without merit and will be aggressively defending these actions. Based on the information presently known these actions will not have a material adverse effect on the consolidated financial position of the Company.

32. Commitments

(a) Letters of Credit

Letters of credit are written commitments provided by a bank. The total amount of letter of credit facilities is U.S. $2,891 of which U.S. $2,739 were issued as of December 31, 2015.

The Reinsurance operation periodically uses letters of credit as collateral under certain reinsurance contracts for on balance sheet policy liabilities.

(b) Investment Commitments

Commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines that are to be disbursed upon fulfillment of certain contract conditions were $203 as at December 31, 2015 maturing within 1 year.

(c) Lease Obligations

The Company enters into operating leases for office space and certain equipment used in the normal course of operations. Lease payments are charged to operations over the period of use. The future minimum lease payments in aggregate and by year are as follows:

	2016	2017	2018	2019	2020	2021 and thereafter	Total
Future lease payments	$ 116	101	87	52	39	76	$ 471

Subsequent to year-end, one of the Company's subsidiaries signed an office lease for 15 years commencing in 2018, for an additional commitment of $271 over the period of the lease.

(d) Other Pledged Assets

In addition to the assets pledged by the Company disclosed elsewhere in the financial statements the Company has pledged, in the normal course of business, $70 of assets of the Company for the purpose of providing collateral for the counterparty.

33. Segmented Information

The operating segments of the Company are Canada, United States, Europe and Lifeco Corporate. These segments reflect the Company's management structure and internal financial reporting and are aligned to its geographic operations. Each of these segments operates in the financial services industry and the revenues from these segments are derived principally from life, health and disability insurance, annuity products, investment management services, savings products and life, property and casualty, accident and health reinsurance. Business activities that are not associated with the specific business units are attributed to the Lifeco Corporate segment.

Transactions between operating segments occur at market terms and conditions and have been eliminated upon consolidation.

The Company has established a capital allocation model to better measure the performance of the operating segments. This segmented information is presented below.

(a) Consolidated Net Earnings

	2015				
	Canada	United States	Europe	Lifeco Corporate	Total
Income					
Total net premiums	$ 11,303	$ 3,858	$ 9,340	$ –	$ 24,501
Net investment income					
Regular net investment income	2,512	1,676	2,081	2	6,271
Changes in fair value through profit or loss	(358)	(532)	(1,120)	–	(2,010)
Total net investment income	2,154	1,144	961	2	4,261
Fee and other income	1,459	2,378	1,221	–	5,058
	14,916	7,380	11,522	2	33,820
Benefits and expenses					
Paid or credited to policyholders	9,991	4,138	8,713	–	22,842
Other [(1)]	3,143	2,515	1,349	16	7,023
Financing charges	116	144	42	1	303
Amortization of finite life intangible assets	59	69	18	–	146
Restructuring and acquisition expenses	–	12	23	–	35
Earnings (loss) before income taxes	1,607	502	1,377	(15)	3,471
Income taxes (recovery)	285	77	105	(7)	460
Net earnings (loss) before non-controlling interests	1,322	425	1,272	(8)	3,011
Non-controlling interests	111	10	2	–	123
Net earnings (loss)	1,211	415	1,270	(8)	2,888
Preferred share dividends	103	–	23	–	126
Net earnings (loss) before capital allocation	1,108	415	1,247	(8)	2,762
Impact of capital allocation	87	(6)	(73)	(8)	–
Net earnings (loss) – common shareholders	$ 1,195	$ 409	$ 1,174	$ (16)	$ 2,762

(1) Includes commissions, operating and administrative expenses and premium taxes.

33. Segmented Information (cont'd)

	2014				
	Canada	United States	Europe	Lifeco Corporate	Total
Income					
Total net premiums	$ 10,883	$ 3,527	$ 6,812	$ –	$ 21,222
Net investment income					
Regular net investment income	2,548	1,420	2,045	(3)	6,010
Changes in fair value through profit or loss	2,588	784	4,155	–	7,527
Total net investment income	5,136	2,204	6,200	(3)	13,537
Fee and other income	1,409	1,820	1,193	–	4,422
	17,428	7,551	14,205	(3)	39,181
Benefits and expenses					
Paid or credited to policyholders	12,676	4,901	11,583	–	29,160
Other (1)	2,916	1,994	1,237	17	6,164
Financing charges	115	140	48	1	304
Amortization of finite life intangible assets	55	57	20	–	132
Restructuring and acquisition expenses	–	3	29	–	32
Earnings (loss) before income taxes	1,666	456	1,288	(21)	3,389
Income taxes (recovery)	355	128	150	(5)	628
Net earnings (loss) before non-controlling interests	1,311	328	1,138	(16)	2,761
Non-controlling interests	88	6	(1)	–	93
Net earnings (loss)	1,223	322	1,139	(16)	2,668
Preferred share dividends	93	–	23	6	122
Net earnings (loss) before capital allocation	1,130	322	1,116	(22)	2,546
Impact of capital allocation	98	(16)	(78)	(4)	–
Net earnings (loss) – common shareholders	$ 1,228	$ 306	$ 1,038	$ (26)	$ 2,546

(1) Includes commissions, operating and administrative expenses and premium taxes.

(b) Consolidated Total Assets and Liabilities

	2015			
	Canada	**United States**	**Europe**	**Total**
Assets				
Invested assets	**$ 67,701**	**$ 43,809**	**$ 50,071**	**$ 161,581**
Goodwill and intangible assets	**5,132**	**2,465**	**2,352**	**9,949**
Other assets	**2,793**	**4,535**	**22,883**	**30,211**
Investments on account of segregated fund policyholders	**70,269**	**35,966**	**91,959**	**198,194**
Total	**$ 145,895**	**$ 86,775**	**$ 167,265**	**$ 399,935**

	2015			
	Canada	**United States**	**Europe**	**Total**
Liabilities				
Insurance and investment contract liabilities	**$ 60,234**	**$ 39,903**	**$ 60,535**	**$ 160,672**
Other liabilities	**6,703**	**5,189**	**3,917**	**15,809**
Investment and insurance contracts on account of segregated fund policyholders	**70,269**	**35,966**	**91,959**	**198,194**
Total	**$ 137,206**	**$ 81,058**	**$ 156,411**	**$ 374,675**

	2014			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 64,718	$ 36,198	$ 45,440	$ 146,356
Goodwill and intangible assets	5,123	2,061	2,296	9,480
Other assets	3,277	3,613	19,017	25,907
Investments on account of segregated fund policyholders	68,372	31,030	75,564	174,966
Total	$ 141,490	$ 72,902	$ 142,317	$ 356,709

	2014			
	Canada	United States	Europe	Total
Liabilities				
Insurance and investment contract liabilities	$ 59,274	$ 32,973	$ 53,808	$ 146,055
Other liabilities	5,590	4,517	3,684	13,791
Investment and insurance contracts on account of segregated fund policyholders	68,372	31,030	75,564	174,966
Total	$ 133,236	$ 68,520	$ 133,056	$ 334,812

34. Comparative Figures

The Company reclassified certain comparative figures to conform to the current year's presentation. The reclassifications had no impact on the net earnings of the Company.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Great-West Lifeco Inc.

We have audited the accompanying consolidated financial statements of Great-West Lifeco Inc., which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014, and the consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Great-West Lifeco Inc. as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Signed,
Deloitte LLP
Chartered Accountants

Winnipeg, Manitoba
February 11, 2016

IGM FINANCIAL INC.

PART C

MANAGEMENT'S DISCUSSION AND ANALYSIS

PAGE C 2

FINANCIAL STATEMENTS AND NOTES

PAGE C 65

Please note that the bottom of each page in Part C contains two different page numbers. A page number with the prefix "C" refers to the number of such page in this document and the page number without any prefix refers to the number of such page in the original document issued by IGM Financial Inc.

The attached documents concerning IGM Financial Inc. are documents prepared and publicly disclosed by such subsidiary. Certain statements in the attached documents, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the current expectations of the subsidiary as set forth therein. Forward-looking statements are provided for the purposes of assisting the reader in understanding the subsidiary's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about the subsidiary's management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

For further information provided by the subsidiary as to the material factors that could cause actual results to differ materially from the content of forward-looking statements, the material factors and assumptions that were applied in making the forward-looking statements, and the subsidiary's policy for updating the content of forward-looking statements, please see the attached documents, including the section entitled Forward-Looking Statements. The reader is cautioned to consider these factors and assumptions carefully and not to put undue reliance on forward-looking statements.

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) presents management's view of the results of operations and financial condition of IGM Financial Inc. (IGM Financial or the Company) as at and for the years ended December 31, 2015 and 2014 and should be read in conjunction with the audited Consolidated Financial Statements. Commentary in the MD&A as at and for the year ended December 31, 2015 is as of February 12, 2016.

Basis of Presentation and Summary of Accounting Policies

The Consolidated Financial Statements of IGM Financial, which are the basis of the information presented in the Company's MD&A, have been prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in Canadian dollars (Note 2 of the Consolidated Financial Statements).

Principal Holders of Voting Shares

As at December 31, 2015, Power Financial Corporation (PFC) and Great-West Lifeco Inc. (Lifeco), a subsidiary of PFC, held directly or indirectly 60.4% and 3.8%, respectively, of the outstanding common shares of IGM Financial.

FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect IGM Financial's current expectations. Forward-looking statements are provided to assist the reader in understanding the Company's financial position and results of operations as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future. Readers are cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Company, as well as the outlook for North American and international economies, for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including the perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. While the Company considers these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

A variety of material factors, many of which are beyond the Company's and its subsidiaries' control, affect the operations, performance and results of the Company, and its subsidiaries, and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks, changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates), the effect of applying future accounting changes, operational and reputational risks, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Company's and its subsidiaries' success in anticipating and managing the foregoing factors.

The reader is cautioned that the foregoing list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not place undue reliance on forward-looking statements.

Other than as specifically required by applicable Canadian law, the Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Additional information about the risks and uncertainties of the Company's business and material factors or assumptions on which information contained in forward-looking statements is based is provided in its disclosure materials, including this Management's Discussion and Analysis and its most recent Annual Information Form, filed with the securities regulatory authorities in Canada, available at www.sedar.com.

NON-IFRS FINANCIAL MEASURES AND ADDITIONAL IFRS MEASURES

Net earnings available to common shareholders, which is an additional measure in accordance with IFRS, may be subdivided into two components consisting of:

- Operating earnings available to common shareholders; and
- Other items, which include the after-tax impact of any item that management considers to be of a non-recurring nature or that could make the period-over-period comparison of results from operations less meaningful.

"Operating earnings available to common shareholders", "operating diluted earnings per share" (EPS) and "operating return on average common equity" (ROE) are non-IFRS financial measures which are used to provide management and investors with additional measures to assess earnings performance. These non-IFRS financial measures do not have standard meanings prescribed by IFRS and may not be directly comparable to similar measures used by other companies.

"Earnings before interest and taxes" (EBIT), "earnings before interest, taxes, depreciation and amortization" (EBITDA) and "adjusted earnings before interest, taxes, depreciation and amortization" (Adjusted EBITDA) are also non-IFRS financial measures. EBIT, EBITDA and Adjusted EBITDA are alternative measures of performance utilized by management, investors and investment analysts to evaluate and analyze the Company's results. EBITDA is a common measure used in the asset management industry to assess profitability before the impact of different financing methods, income taxes, depreciation of capital assets and amortization of intangible assets. Other items of a non-recurring nature, or that could make the period-over-period comparison of results from operations less meaningful, are further excluded to arrive at Adjusted EBITDA. These non-IFRS financial measures do not have standard meanings prescribed by IFRS and may not be directly comparable to similar measures used by other companies.

"Earnings before income taxes" and "net earnings available to common shareholders" are additional IFRS measures which are used to provide management and investors with additional measures to assess earnings performance. These measures are considered additional IFRS measures as they are in addition to the minimum line items required by IFRS and are relevant to an understanding of the entity's financial performance.

Refer to the appropriate reconciliations of non-IFRS financial measures to reported results in accordance with IFRS in Tables 1 and 2.

IGM Financial Inc.
Summary of Consolidated Operating Results

IGM Financial Inc. (TSX:IGM) is one of Canada's premier financial services companies. The Company's principal businesses are Investors Group Inc. and Mackenzie Financial Corporation, each operating distinctly, primarily within the advice segment of the financial services market.

Mutual fund assets under management were $127.5 billion at December 31, 2015 compared with $126.0 billion at December 31, 2014. Average mutual fund assets under management for the year ended December 31, 2015 were $129.4 billion compared to $123.5 billion in 2014.

Total assets under management were $133.6 billion at December 31, 2015 compared with $141.9 billion at December 31, 2014, as detailed in Tables 4 and 5. Average total assets under management for the year ended December 31, 2015 were $140.4 billion compared to $138.9 billion in 2014.

Operating earnings available to common shareholders, excluding other items outlined below, for the year ended December 31, 2015 were $796.0 million or $3.21 per share compared to operating earnings available to common shareholders of $826.1 million or $3.27 per share in 2014.

Net earnings available to common shareholders for the year ended December 31, 2015 were $771.7 million or $3.11 per share compared to net earnings available to common shareholders of $753.3 million or $2.98 per share in 2014.

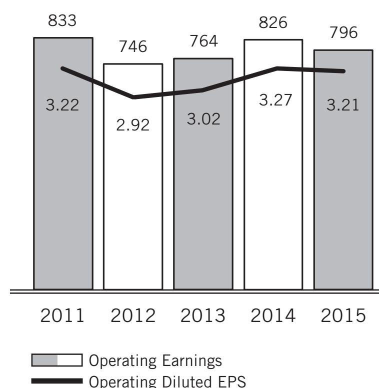
Other items for the year ended December 31, 2015 consisted of an after-tax charge of $24.3 million recorded in the fourth quarter related to restructuring and other charges.

Other items for the year ended December 31, 2014 consisted of:

- An after-tax charge of $59.2 million related to estimated distributions to clients, as well as other costs. This estimate consisted primarily of distributions to be made in 2015 to clients with household investments in Investors Group funds in excess of $500,000, who did not transfer to lower fee investment solutions when eligible.
- An after-tax charge of $13.6 million recorded in the second quarter related to restructuring and other charges.

Operating Earnings and Operating Earnings per Share

For the financial year *($ millions, except per share amounts)*



2011 excluded net earnings on discontinued operations and the proportionate share of the benefit related to the changes in an affiliate's litigation provisions.

2012 excluded a reduction in income tax estimates related to certain tax filings, the proportionate share of the charge related to the changes in an affiliate's litigation provision, and a non-cash income tax charge.

2013 excluded an after-tax charge related to restructuring and other charges and the proportionate share of the benefit related to the changes in an affiliate's litigation provisions.

2014 excluded an after-tax charge related to client distributions and other costs, and an after-tax charge related to restructuring and other charges.

2015 excluded an after-tax charge related to restructuring and other charges.

Shareholders' equity was $4.8 billion as at December 31, 2015, unchanged from December 31, 2014. Return on average common equity based on operating earnings for the year ended December 31, 2015 was 17.0%, compared with 17.8% for the comparative period in 2014. The quarterly dividend per common share was 56.25 cents in 2015, unchanged from the end of 2014.

TABLE 1: RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

($ millions)	2015 EARNINGS	2015 EPS[1]	2014 EARNINGS	2014 EPS[1]
Operating earnings available to common shareholders – Non-IFRS measure	$ 796.0	$ 3.21	$ 826.1	$ 3.27
Restructuring and other charges, net of tax	(24.3)	(0.10)	(13.6)	(0.06)
Client distributions and other costs, net of tax	–	–	(59.2)	(0.23)
Net earnings available to common shareholders – IFRS	$ 771.7	$ 3.11	$ 753.3	$ 2.98
Adjusted EBITDA - Non-IFRS measure	$ 1,392.6		$ 1,427.2	
Restructuring and other charges	(33.9)		(18.3)	
Client distributions and other costs	–		(81.0)	
EBITDA - Non-IFRS measure	1,358.7		1,327.9	
Commission amortization	(232.9)		(233.4)	
Amortization of capital assets and intangible assets and other	(42.9)		(37.4)	
Interest expense on long-term debt	(92.1)		(92.2)	
Earnings before income taxes	990.8		964.9	
Income taxes	(210.3)		(202.8)	
Perpetual preferred share dividends	(8.8)		(8.8)	
Net earnings available to common shareholders - IFRS	$ 771.7		$ 753.3	

(1) Diluted earnings per share

REPORTABLE SEGMENTS

IGM Financial's reportable segments, which reflect the current organizational structure and internal financial reporting, are:

- Investors Group
- Mackenzie Investments (Mackenzie Investments or Mackenzie)
- Corporate and Other.

Management measures and evaluates the performance of these segments based on EBIT as shown in Table 2. Segment operations are discussed in each of their respective Review of Segment Operating Results sections of the MD&A.

Certain items reflected in Table 2 are not allocated to segments:

- *Interest expense* – represents interest expense on long-term debt.
- *Restructuring and other charges*
  - 2015 primarily reflects severance and payments to third parties related to exiting certain investment management activities and third party back office relationships. The largest components of these activities relate to:
    - *Mackenzie* – closing the investment management office in Singapore as well as implementing other personnel changes in order to redeploy resources towards other corporate priorities, which management believes will provide greater benefits to Mackenzie over time.
    - *Investors Group* – introducing a new in-house dealer platform for nominee accounts and exiting its current relationship with its third party carrying broker. This new platform will enhance the service experience to Consultants and clients and is intended to achieve efficiencies over the long term.
  - 2014 primarily reflects severance and other costs associated with Mackenzie cost rationalization activities as well as senior management changes announced and implemented during the second quarter.

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT

($ millions)	INVESTORS GROUP 2015	INVESTORS GROUP 2014	MACKENZIE 2015	MACKENZIE 2014	CORPORATE & OTHER 2015	CORPORATE & OTHER 2014	TOTAL 2015	TOTAL 2014
Revenues								
Fee income	$ 1,776.2	$ 1,709.0	$ 809.3	$ 823.2	$ 250.6	$ 230.3	$ 2,836.1	$ 2,762.5
Net investment income and other	70.1	51.4	6.0	2.7	119.1	112.2	195.2	166.3
	1,846.3	1,760.4	815.3	825.9	369.7	342.5	3,031.3	2,928.8
Expenses								
Commission	586.3	537.6	304.5	298.7	171.3	156.3	1,062.1	992.6
Non-Commission	499.3	445.7	294.5	281.4	58.6	52.7	852.4	779.8
	1,085.6	983.3	599.0	580.1	229.9	209.0	1,914.5	1,772.4
Earnings before interest and taxes	$ 760.7	$ 777.1	$ 216.3	$ 245.8	$ 139.8	$ 133.5	1,116.8	1,156.4
Interest expense							(92.1)	(92.2)
Restructuring and other charges							(33.9)	(18.3)
Client distributions and other costs							–	(81.0)
Earnings before income taxes							990.8	964.9
Income taxes							210.3	202.8
Net earnings							780.5	762.1
Perpetual preferred share dividends							8.8	8.8
Net earnings available to common shareholders							$ 771.7	$ 753.3
Operating earnings available to common shareholders [1]							$ 796.0	$ 826.1

(1) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in this MD&A for an explanation of the Company's use of non-IFRS financial measures.

- *2014 Client distributions and other costs* – In the third quarter of 2012, Investors Group introduced investment solutions for clients with household investments in Investors Group funds in excess of $500,000. At December 31, 2014, a before-tax charge of $81.0 million ($59.2 million after-tax) was recorded related to these lower fee investment solutions. This amount primarily reflects estimated distributions to clients who did not transfer to these lower priced solutions when eligible. During 2015, Investors Group provided distributions to these clients.
- *Income taxes* – changes in the effective tax rates are shown in Table 3.

Tax planning may result in the Company recording lower levels of income taxes. Management monitors the status of its income tax filings and regularly assesses the overall adequacy of its provision for income taxes and, as a result, income taxes recorded in prior years may be adjusted in the current year. The effect of changes in management's best estimates reported in operating earnings is reflected in Other items, which also includes, but is not limited to, the effect of lower effective income tax rates on foreign operations.

- *Perpetual preferred share dividends* – represents the dividends declared on the Company's 5.90% non-cumulative first preferred shares.

TABLE 3: EFFECTIVE INCOME TAX RATE

	THREE MONTHS ENDED			TWELVE MONTHS ENDED	
	2015 DEC. 31	2015 SEP. 30	2014 DEC. 31	2015 DEC. 31	2014 DEC. 31
Income taxes at Canadian federal and provincial statutory rates	26.73 %	26.72 %	26.50 %	26.72 %	26.58 %
Effect of:					
Proportionate share of affiliate's earnings	(3.57)	(2.76)	(4.08)	(3.01)	(2.68)
Loss consolidation[1]	(2.79)	(2.38)	(2.76)	(2.44)	(2.06)
Other items	(0.57)	0.09	(1.30)	(0.05)	(0.82)
Effective income tax rate - net earnings	19.80 %	21.67 %	18.36 %	21.22 %	21.02 %

(1) See the Transactions with Related Parties section of this MD&A for additional information.

SUMMARY OF CHANGES IN TOTAL ASSETS UNDER MANAGEMENT

Total assets under management were $133.6 billion at December 31, 2015 compared to $141.9 billion at December 31, 2014. Changes in total assets under management are detailed in Tables 4 and 5.

Changes in assets under management for Investors Group and Mackenzie are discussed further in each of their respective Review of the Business sections in the MD&A.

TABLE 4: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – Q4 2015 VS. Q4 2014

	INVESTORS GROUP		MACKENZIE		INVESTMENT PLANNING COUNSEL		CONSOLIDATED[1]	
THREE MONTHS ENDED ($ millions)	2015 DEC. 31	2014 DEC. 31	2015 DEC. 31	2014 DEC. 31	2015 DEC. 31	2014 DEC. 31	2015 DEC. 31	2014 DEC. 31
Mutual funds								
Gross sales – money market	$ 283	$ 296	$ 94	$ 103	$ 9	$ 15	$ 386	$ 414
Gross sales – long-term	1,538	1,544	1,558	1,452	194	167	3,276	3,158
Total mutual fund gross sales	$ 1,821	$ 1,840	$ 1,652	$ 1,555	$ 203	$ 182	$ 3,662	$ 3,572
Net sales – money market	$ 93	$ 113	$ 27	$ 25	$ 7	$ 13	$ 127	$ 151
Net sales – long-term[2]	(93)	81	(454)	(496)	35	37	(457)	(380)
Total mutual fund net sales	$ –	$ 194	$ (427)	$ (471)	$ 42	$ 50	$ (330)	$ (229)
Sub-advisory, institutional and other accounts								
Gross sales	$ –	$ –	$ 941	$ 1,766	$ –	$ –	$ 502	$ 964
Net sales[3]	–	–	61	619	–	–	3	181
Combined								
Gross sales	$ 1,821	$ 1,840	$ 2,593	$ 3,321	$ 203	$ 182	$ 4,164	$ 4,536
Net sales[2][3]	–	194	(366)	148	42	50	(327)	(48)
Change in total assets under management								
Net sales[2][3]	$ –	$ 194	$ (366)	$ 148	$ 42	$ 50	$ (327)	$ (48)
Market and income	1,365	579	1,728	774	131	31	3,052	1,350
Net change in assets	1,365	773	1,362	922	173	81	2,725	1,302
Beginning assets	73,532	72,686	60,291	69,954	4,005	3,769	130,923	140,617
Ending assets	$ 74,897	$ 73,459	$ 61,653	$ 70,876	$ 4,178	$ 3,850	$ 133,648	$ 141,919

(1) Total Gross Sales and Net Sales excluded $453 million and $3 million, respectively, in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel ($807 million and $440 million in 2014).

Total assets under management excluded $7.1 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel ($6.3 billion at December 31, 2014).

(2) During the fourth quarter of 2015, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of $58 million, redemptions of $297 million and net redemptions of $239 million.

During the fourth quarter of 2014, a third party investment program which includes Mackenzie mutual funds made fund allocation changes which resulted in gross sales of $62 million, redemptions of $284 million and net redemptions of $222 million.

(3) During the fourth quarter of 2014, there were tactical rebalances by an institutional client that resulted in gross sales of $448 million, redemptions of $94 million and net sales of $354 million into separately managed account investment mandates advised by Mackenzie.

TABLE 5: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – 2015 VS. 2014

	INVESTORS GROUP		MACKENZIE		INVESTMENT PLANNING COUNSEL		CONSOLIDATED[1]	
TWELVE MONTHS ENDED ($ millions)	2015 DEC. 31	2014 DEC. 31	2015 DEC. 31	2014 DEC. 31	2015 DEC. 31	2014 DEC. 31	2015 DEC. 31	2014 DEC. 31
Mutual funds								
Gross sales – money market	$ 1,091	$ 880	$ 391	$ 402	$ 58	$ 65	$ 1,540	$ 1,347
Gross sales – long-term	6,799	6,581	6,574	6,668	683	617	14,023	13,847
Total mutual fund gross sales	$ 7,890	$ 7,461	$ 6,965	$ 7,070	$ 741	$ 682	$ 15,563	$ 15,194
Net sales – money market	$ 374	$ 227	$ 93	$ 81	$ 45	$ 51	$ 512	$ 358
Net sales – long-term[2]	380	424	(1,351)	(290)	132	156	(793)	278
Total mutual fund net sales	$ 754	$ 651	$ (1,258)	$ (209)	$ 177	$ 207	$ (281)	$ 636
Sub-advisory, institutional and other accounts								
Gross sales	$ –	$ –	$ 4,973	$ 6,898	$ –	$ –	$ 2,339	$ 4,391
Net sales[3]	–	–	(9,337)	1,452	–	–	(9,976)	724
Combined								
Gross sales	$ 7,890	$ 7,461	$ 11,938	$ 13,968	$ 741	$ 682	$ 17,902	$ 19,585
Net sales[2][3]	754	651	(10,595)	1,243	177	207	(10,257)	1,360
Change in total assets under management								
Net sales[2][3]	$ 754	$ 651	$ (10,595)	$ 1,243	$ 177	$ 207	$ (10,257)	$ 1,360
Market and income	684	4,553	1,372	4,318	151	237	1,986	8,783
Net change in assets	1,438	5,204	(9,223)	5,561	328	444	(8,271)	10,143
Beginning assets	73,459	68,255	70,876	65,315	3,850	3,406	141,919	131,776
Ending assets	$ 74,897	$ 73,459	$ 61,653	$ 70,876	$ 4,178	$ 3,850	$ 133,648	$ 141,919

(1) Total Gross Sales and Net Sales excluded $2.7 billion and $593 million, respectively, in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel ($2.5 billion and $741 million in 2014).

Total assets under management excluded $7.1 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel ($6.3 billion at December 31, 2014).

(2) During the twelve months ended December 31, 2015, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of $199 million, redemptions of $894 million and net redemptions of $695 million.

During the twelve months ended December 31, 2014, a third party investment program which includes Mackenzie mutual funds made allocation changes which resulted in gross sales of $62 million, redemptions of $284 million and net redemptions of $222 million.

(3) During the twelve months ended December 31, 2015, MD Financial Management re-assigned sub-advisory responsibilities on four fixed income mandates (totalling $10.3 billion) advised by Mackenzie.

During the twelve months ended December 31, 2014, there were tactical rebalances by an institutional client that resulted in gross sales of $1.6 billion, redemptions of $1.2 billion and net sales of $389 million into separately managed account investment mandates advised by Mackenzie.

SELECTED ANNUAL INFORMATION

Financial information for the three most recently completed years is included in Table 6.

Net Earnings and Earnings per Share – Except as noted in the reconciliation in Table 6, variations in net earnings and total revenues result primarily from changes in average daily mutual fund assets under management. Mutual fund assets under management increased to $117.6 billion in 2013, $126.0 billion in 2014 and $127.5 billion in 2015, consistent with the movement in domestic and foreign markets. Average mutual fund assets under management for the year ended December 31, 2015 were $129.4 billion compared to $123.5 billion in 2014. The impact on earnings and revenues of changes in average daily mutual fund assets under management and other pertinent items are discussed in the Review of Segment Operating Results sections of the MD&A for both Investors Group and Mackenzie.

Total assets under management at December 31, 2015 were $133.6 billion and included mutual fund assets under management totalling $127.5 billion. Net earnings in future periods will largely be determined by the level of mutual fund assets which will continue to be influenced by global market conditions.

Dividends per Common Share – Annual dividends per common share were $2.25 in 2015, an increase of 3.4% from 2014. Annual dividends per common share increased by 1.2% in 2014 and did not increase in 2013.

SUMMARY OF QUARTERLY RESULTS

The Summary of Quarterly Results in Table 7 includes the eight most recent quarters and the reconciliation of non-IFRS financial measures to net earnings in accordance with IFRS.

Changes in average daily mutual fund assets under management over the eight most recent quarters, as shown in Table 7, have been consistent with the movement in domestic and foreign markets. These average assets generally increased in 2014 and in the first two quarters of 2015, however declined by 2.1% and 0.6% in the third and fourth quarters of 2015.

TABLE 6: SELECTED ANNUAL INFORMATION

	2015	2014	2013
Consolidated statements of earnings *($ millions)*			
Revenues			
Fee income	$ 2,836.1	$ 2,762.5	$ 2,513.2
Net investment income and other	195.2	166.3	165.6
	3,031.3	2,928.8	2,678.8
Expenses	2,006.6	1,864.6	1,691.8
	1,024.7	1,064.2	987.0
Restructuring and other charges	(33.9)	(18.3)	(14.6)
Client distributions and other costs	–	(81.0)	–
Proportionate share of affiliate's provision	–	–	9.0
Earnings before income taxes	990.8	964.9	981.4
Income taxes	210.3	202.8	210.7
Net earnings	780.5	762.1	770.7
Perpetual preferred share dividends	8.8	8.8	8.8
Net earnings available to common shareholders	$ 771.7	$ 753.3	$ 761.9
Reconciliation of Non–IFRS financial measures [1] *($ millions)*			
Operating earnings available to common shareholders – non-IFRS measure	$ 796.0	$ 826.1	$ 763.5
Other items:			
Restructuring and other charges, net of tax	(24.3)	(13.6)	(10.6)
Client distributions and other costs, net of tax	–	(59.2)	–
Proportionate share of affiliate's provision	–	–	9.0
Net earnings available to common shareholders – IFRS	$ 771.7	$ 753.3	$ 761.9
Earnings per share *($)*			
Operating earnings available to common shareholders[1]			
– Basic	$ 3.21	$ 3.28	$ 3.03
– Diluted	3.21	3.27	3.02
Net earnings available to common shareholders			
– Basic	3.11	2.99	3.02
– Diluted	3.11	2.98	3.02
Dividends per share *($)*			
Common	$ 2.25	$ 2.18	$ 2.15
Preferred, Series B	1.48	1.48	1.48
Average daily mutual fund assets *($ millions)*	$ 129,424	$ 123,540	$ 110,045
Total mutual fund assets under management *($ millions)*	$ 127,517	$ 126,039	$ 117,649
Total assets under management *($ millions)*	$ 133,648	$ 141,919	$ 131,777
Total corporate assets *($ millions)*	$ 14,831	$ 14,417	$ 12,880
Total long–term debt *($ millions)*	$ 1,325	$ 1,325	$ 1,325
Outstanding common shares *(thousands)*	244,788	251,469	252,310

[1] *Refer to Non–IFRS Financial Measures and Additional IFRS Measures in addition to the Summary of Consolidated Operating Results section included in this MD&A for an explanation of Other items used to calculate the Company's Non–IFRS financial measures.*

TABLE 7: SUMMARY OF QUARTERLY RESULTS

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Consolidated statements of earnings *($ millions)*								
Revenues								
Management fees	$ 504.1	$ 508.5	$ 517.3	$ 509.1	$ 507.4	$ 517.0	$ 503.9	$ 485.8
Administration fees	104.7	104.6	106.0	102.3	100.7	102.0	99.3	95.2
Distribution fees	97.0	92.7	95.3	94.5	87.7	85.0	86.1	92.4
Net investment income and other	49.7	45.9	44.6	55.0	46.2	46.2	32.5	41.4
	755.5	751.7	763.2	760.9	742.0	750.2	721.8	714.8
Expenses								
Commission	264.3	263.2	267.7	266.9	253.9	249.8	245.7	243.2
Non-commission	214.5	208.4	215.9	213.6	198.8	190.8	194.5	195.7
Interest	23.2	23.2	22.9	22.8	23.3	23.2	22.9	22.8
	502.0	494.8	506.5	503.3	476.0	463.8	463.1	461.7
Earnings before undernoted	253.5	256.9	256.7	257.6	266.0	286.4	258.7	253.1
Restructuring and other charges	(33.9)	–	–	–	–	–	(18.3)	–
Client distributions and other costs	–	–	–	–	(81.0)	–	–	–
Earnings before income taxes	219.6	256.9	256.7	257.6	185.0	286.4	240.4	253.1
Income taxes	43.5	55.7	56.0	55.1	33.9	64.5	47.9	56.5
Net earnings	176.1	201.2	200.7	202.5	151.1	221.9	192.5	196.6
Perpetual preferred share dividends	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Net earnings available to common shareholders	$ 173.9	$ 199.0	$ 198.5	$ 200.3	$ 148.9	$ 219.7	$ 190.3	$ 194.4
Reconciliation of Non-IFRS financial measures (1) *($ millions)*								
Operating earnings available to common shareholders – non–IFRS measure	$ 198.2	$ 199.0	$ 198.5	$ 200.3	$ 208.1	$ 219.7	$ 203.9	$ 194.4
Other items:								
Restructuring and other charges, net of tax	(24.3)	–	–	–	–	–	(13.6)	–
Client distributions and other costs, net of tax	–	–	–	–	(59.2)	–	–	–
Net earnings available to common shareholders - IFRS	$ 173.9	$ 199.0	$ 198.5	$ 200.3	$ 148.9	$ 219.7	$ 190.3	$ 194.4
Earnings per Share *(¢)*								
Operating earnings available to common shareholders(1)								
– Basic	81	81	80	80	83	87	81	77
– Diluted	81	81	80	80	83	87	81	77
Net earnings available to common shareholders								
– Basic	71	81	80	80	59	87	75	77
– Diluted	71	81	80	80	59	87	75	77
Average daily mutual fund assets *($ billions)*	$ 127.8	$ 128.6	$ 131.4	$ 129.9	$ 124.6	$ 126.2	$ 123.6	$ 119.7
Total mutual fund assets under management *($ billions)*	$ 127.5	$ 124.9	$ 129.7	$ 131.5	$ 126.0	$ 125.2	$ 125.2	$ 122.5
Total assets under management *($ billions)*	$ 133.6	$ 130.9	$ 136.0	$ 148.4	$ 141.9	$ 140.6	$ 141.4	$ 137.3

(1) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in addition to the Summary of Consolidated Operating Results section included in this MD&A for an explanation of Other items used to calculate the Company's Non-IFRS financial measures.

Investors Group Review of the Business

Investors Group provides a broad range of financial and investment planning services to Canadians through its exclusive network of Consultants across the country.

Fee income is primarily generated from the management, administration and distribution of Investors Group mutual funds.

Fee income is also earned from the distribution of insurance, securities and other financial services.

Additional revenue is derived from net investment income and other income, primarily related to our mortgage business.

Revenues depend largely on the level and composition of mutual fund assets under management. The comprehensive planning approach, provided by our Consultants through the broad range of financial products and services offered by Investors Group, has resulted in a mutual fund redemption rate lower than the industry average.

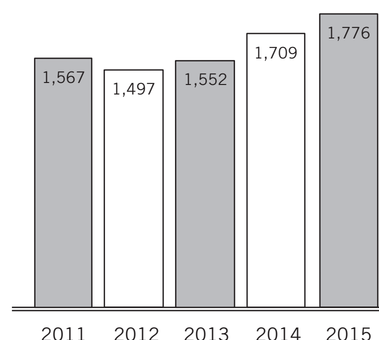
INVESTORS GROUP STRATEGY

Investors Group strives to ensure that the interests of shareholders, clients, Consultants and employees are closely aligned. Investors Group's business strategy is focused on:

- Growing our distribution network by expanding the number of region offices, attracting new Consultants to our industry and supporting existing Consultants in their growth and development.
- Emphasizing the delivery of financial advice, products and services through our exclusive network of Consultants.
- Providing an effective level of administrative support to our Consultants and clients, including active communication during all economic cycles.
- Extending the diversity and range of products offered by Investors Group as we continue to build and maintain enduring client relationships.
- Maximizing returns on business investment by focusing resources on initiatives that directly benefit clients and Consultants and result in increased efficiency and improved control over expenditures.

Recent advertising developments – Investors Group launched a new brand positioning that places value on personal experiences. The new campaign positions these personal experiences in the context of the services Investors Group provides. The message is that our Consultants develop a comprehensive financial plan that helps clients get more out of their money, so that they can get more out of life. The new campaign includes digital and print ads, a refreshed interactive website, and a number of approaches designed to maximize Consultant and consumer engagement.

Fee Income – Investors Group
For the financial year *($ millions)*



CONSULTANT NETWORK

Investors Group distinguishes itself from its competition by offering comprehensive planning to its clients within the context of long-term relationships. This approach is consistent with studies in recent years which indicate that client households receiving advice from a financial advisor have higher assets than non-advised households, and that this advantage increases based on the length of the relationship with the financial advisor. At the centre of these relationships is a national distribution network of Consultants based in 114 region offices across Canada. Four new region offices were opened in 2015, including two in Montreal, one in Peterborough and one in Edmonton.

At December 31, 2015, Investors Group had a Consultant network of 5,320, up from 5,145 at December 31, 2014. This represents the highest level in the history of the company.

The individuals in the Consultant network with more than four years of Investors Group experience was at an all time quarter end high of 2,852 at December 31, 2015 compared to 2,810 a year earlier. As new Consultants gain more experience and tenure, there is typically an increase in sales productivity. For example, the average level of investment fund gross sales per Consultant with greater than four years experience is five times that of a Consultant with less than four years.

At December 31, 2015, 1,531 individuals in our Consultant network held the Certified Financial Planner (CFP) designation or its Quebec equivalent, the Financial Planner (F.Pl.) designation. In addition, there are 722 individuals enrolled in these programs to gain

these designations. The total of 2,253 of those studying to be or qualified as CFP or F.Pl. is up 22% from 1,841 at December 31, 2014. The CFP and F.Pl. designations are nationally accepted financial planning qualifications that require an individual to demonstrate financial planning competence through education, standardized examinations, continuing education requirements, and accountability to ethical standards.

Consultant Development

Investors Group combines a number of interview and testing techniques to identify individuals who demonstrate a blend of experience, education and aptitude that makes them well suited to becoming successful financial planners. This process is continually reviewed in our efforts to select the most appropriate candidates as new Consultants to improve their likelihood of success in the future.

Each year our training curriculum is reviewed and refreshed to offer new Consultants important building blocks to develop client relationships. As Consultants progress, they develop their skills as financial planners and business managers by attending a selection of focused educational programs including: financial planning skills, product knowledge, client service, business development skills, compliance, technology, practice management and other related topics. This core training is supplemented by annual training conferences where education is tailored to both new and experienced Consultants.

Investors Group continually reviews and enhances our Consultant technology platform, bringing greater efficiencies to our Consultants' contact management and portfolio information and financial planning systems to help them serve our clients more effectively. These efforts included upgrades to the financial planning software used by Consultants.

ADMINISTRATIVE SUPPORT AND COMMUNICATION FOR CONSULTANTS AND CLIENTS

Administrative support for Consultants and clients includes timely and accurate client account record-keeping and reporting, effective problem resolution support, and continuous improvements to servicing systems.

This administrative support is provided from both Investors Group's Quebec General Office located in Montreal for Consultants and clients residing in Quebec and from Investors Group's head office in Winnipeg, Manitoba for Consultants and clients in the rest of Canada. The Quebec General Office has over 200 employees and operating units for most functions supporting approximately 1,100 Consultants throughout Quebec and the 21 Quebec region offices. Mutual fund assets under management in Quebec were approximately $13 billion as at December 31, 2015.

New Dealer Platform

A new dealer platform is scheduled to be introduced in August, 2016 which will deliver an enhanced service experience to Consultants and clients. This new dealer platform will allow us to internalize carrying broker functionality and client statement preparation for Investment Industry Regulatory Organization of Canada (IIROC) and Mutual Fund Dealers Association of Canada (MFDA) nominee accounts which are currently performed by a third party service provider, as well as provide increased automation of transaction activity. This platform will also support the introduction of new IIROC based products designed to support the high net worth segment of our client base. The new platform is expected to result in efficiencies over the long term.

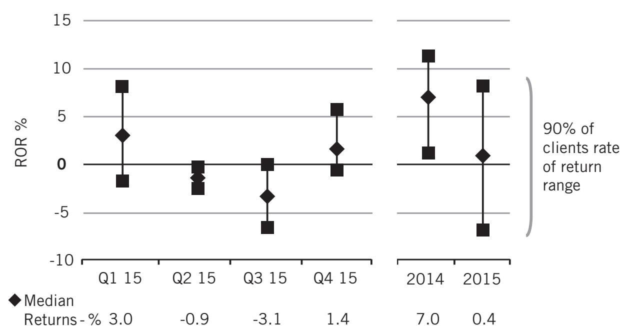
Quarterly Statements

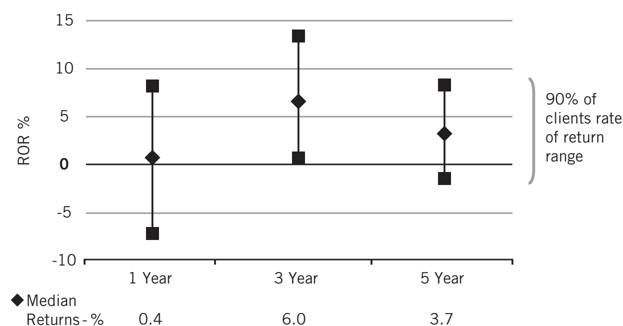
Regular communication with our clients includes quarterly reporting of their Investors Group mutual fund holdings and the change in asset values of these holdings during the quarter. Individual clients experience different returns as a result of their net cash flow and fund holdings in each quarter as illustrated on the accompanying charts. The first chart reflects in-quarter client account median rates of return for the current year as well as the annual returns for 2015 compared to 2014. The second chart reflects the client account median rates of return based on one, three and five year timeframes as at December 31, 2015. Both charts also illustrate upper and lower ranges of rates of return around the median for 90% of Investors Group clients.

For the three months ended December 31, 2015, the client account median rate of return was approximately 1.4% and 82% of clients experienced positive returns. For the twelve months ended December 31, 2015, the client account median rate of return was approximately 0.4% and 55% of clients experienced positive returns.

New Client Performance and Rate of Return Reporting

Investors Group has long believed that providing our clients with personal account level performance and rate of return information over multiple time periods will be a meaningful benefit to our clients and further demonstrates the value provided through advice over the history of our client relationships. That is why in 2009 we took initial steps to develop this information for





clients and we began capturing the necessary information to calculate account level money-weighted internal rates of return.

In March 2013, the Canadian Securities Administrators adopted a new set of rules as Phase 2 of the Client Relationship Model, often referred to as CRM2. One of the most significant aspects of these rules required all dealers to provide their clients with account level rates of return for various historical periods on a comprehensive money-weighted basis. This is an industry-wide regulatory rule focused on ensuring that clients are well informed regarding the performance of their investments.

Investors Group fully supports this initiative. We added multiple-period account rate of return reporting to most Investors Group's client statements beginning with the June 30, 2015 client statement period and we will continue reporting on this basis in subsequent quarters. As the required data has been gathered since 2009, clients now have a multiple-period view of their performance, including one year, three year and five year rates of return.

This new client feature has been introduced a full two years earlier than the regulatory requirements and shows at least a five year history for our long-term clients. The regulations only required us to provide this information by July 15, 2017 and only on a one year basis initially with longer time frames emerging over time.

Client Experience Survey

Consultants maintain a high degree of contact with our clients, continuing to reinforce the importance of long-term planning and a diversified investment portfolio. Ongoing surveys of our clients indicate a strong appreciation of the value of advice and service provided by our Consultants through varying economic cycles.

Investors Group has an ongoing program of surveys to measure client experience for new and existing clients:

- All new Investors Group clients receive a survey at their three month anniversary date.
- All existing clients are surveyed annually.

The results of the surveys for the four quarters ending December 31, 2015 are detailed in Table 8.

TABLE 8: CLIENT EXPERIENCE SURVEY – INVESTORS GROUP

Surveys completed for the four quarters ending December 31, 2015	
New client households surveyed 90 days after account opening	
Satisfied with service	96 %
Offered a financial plan	92
Satisfied with discussion about goals and concerns	96
Willing to refer	93
Client households with 12+ months tenure	
Satisfied with service	92 %
Have a financial plan	85
Satisfied with level of contact	93
Willing to refer	88

TABLE 9: CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – INVESTORS GROUP

THREE MONTHS ENDED *($ millions)*	2015 DEC. 31	2015 SEP. 30	2014 DEC. 31	% CHANGE 2015 SEP. 30	 2014 DEC. 31
Sales	$ 1,821	$ 1,810	$ 1,840	0.6 %	(1.0)%
Redemptions	1,821	1,671	1,646	9.0	10.6
Net sales (redemptions)	–	139	194	N/M	N/M
Market and income	1,365	(2,451)	579	N/M	135.8
Net change in assets	1,365	(2,312)	773	N/M	76.6
Beginning assets	73,532	75,844	72,686	(3.0)	1.2
Ending assets	$ 74,897	$ 73,532	$ 73,459	1.9 %	2.0 %
Average daily assets	$ 75,250	$ 75,361	$ 72,534	(0.1)%	3.7 %

TWELVE MONTHS ENDED *($ millions)*	2015 DEC. 31	2014 DEC. 31	% CHANGE
Sales	$ 7,890	$ 7,461	5.7 %
Redemptions	7,136	6,810	4.8
Net sales (redemptions)	754	651	15.8
Market and income	684	4,553	(85.0)
Net change in assets	1,438	5,204	(72.4)
Beginning assets	73,459	68,255	7.6
Ending assets	$ 74,897	$ 73,459	2.0 %
Average daily assets	$ 75,711	$ 71,638	5.7 %

ASSETS UNDER MANAGEMENT

The level of mutual fund assets under management is influenced by three factors: sales, redemptions and net asset values of our funds. Changes in assets under management for the periods under review are reflected in Table 9.

Change in Mutual Fund Assets Under Management – 2015 vs. 2014

Investors Group's mutual fund assets under management were $74.9 billion at December 31, 2015, representing an increase of 2.0% from $73.5 billion at December 31, 2014. Average daily mutual fund assets were $75.3 billion in the fourth quarter of 2015, up 3.7% from $72.5 billion in the fourth quarter of 2014.

For the quarter ended December 31, 2015, sales of Investors Group mutual funds through its Consultant network were $1.8 billion, a decrease of 1.0% from the comparative period in 2014. Mutual fund redemptions totalled $1.8 billion, an increase of 10.6% from 2014. Investors Group mutual fund sales were equal to redemptions for the fourth quarter of 2015 and compared with net sales of $194 million in 2014. During the fourth quarter, market and income resulted in an increase of $1.4 billion in mutual fund assets compared to an increase of $579 million in the fourth quarter of 2014.

Sales of long-term funds were $1.5 billion for the fourth quarter of 2015, a decrease of 0.4% from the previous year. Net redemptions of long-term funds for the fourth quarter of 2015 were $93 million compared to net sales of $81 million in 2014.

Investors Group's annualized quarterly redemption rate for long-term funds was 8.8% in the fourth quarter of 2015 compared to 8.1% in the fourth quarter of 2014. Investors Group's twelve month trailing redemption rate for long-term funds was 8.7% at December 31, 2015, unchanged from December 31, 2014, and remains well below the corresponding average redemption rate for all other members of the Investment Funds Institute of Canada (IFIC) of approximately 15.4% at December 31, 2015.

Over the last several years, a component of the redemptions included in Investors Group's long-term redemption rate has related to the Cornerstone funds and transfers to Investors Group Series of Guaranteed

Investment Funds (GIFs). The Cornerstone funds are income portfolio funds which invest between 30% and 50% of their assets in Investors Canadian Money Market Fund. These funds are used by our clients as a substitute for money market funds which have higher redemption activity and, together with the transfers to GIFs, account for 0.3% of our long-term redemption rate at December 31, 2015. Excluding such items, the twelve month trailing redemption rate for long-term funds would have been 8.4%.

For the twelve months ended December 31, 2015, sales of Investors Group mutual funds through its Consultant network were $7.9 billion, an increase of 5.7% from 2014. Mutual fund redemptions totalled $7.1 billion, an increase of 4.8% from 2014. Net sales of Investors Group mutual funds were $754 million compared with net sales of $651 million in 2014. Sales of long-term funds for the twelve month period in 2015 were $6.8 billion, compared with $6.6 billion in 2014, an increase of 3.3%. Net sales of long-term funds were $380 million compared to net sales of $424 million in 2014. During 2015, market and income resulted in an increase of $684 million in mutual fund assets compared to an increase of $4.6 billion in 2014.

Change in Mutual Fund Assets Under Management – Q4 2015 vs. Q3 2015

Investors Group's mutual fund assets under management were $74.9 billion at December 31, 2015, an increase of 1.9% from $73.5 billion at September 30, 2015. Average daily mutual fund assets were $75.3 billion in the fourth quarter of 2015 compared to $75.4 billion in the third quarter of 2015, a decrease of 0.1%.

For the quarter ended December 31, 2015, sales of Investors Group mutual funds through its Consultant network were $1.8 billion, an increase of 0.6% from the third quarter of 2015. Mutual fund redemptions, which totalled $1.8 billion for the fourth quarter, increased 9.0% from the previous quarter and the annualized quarterly redemption rate was 8.8% in the fourth quarter compared to 8.1% in the third quarter of 2015. Investors Group mutual fund sales were equal to redemptions for the current quarter and compared with net sales of $139 million in the previous quarter. Sales of long-term funds were $1.5 billion for the current quarter, unchanged from the previous quarter. Net redemptions of long-term funds for the current quarter were $93 million compared to net sales of $26 million in the previous quarter.

PRODUCTS AND SERVICES

Investors Group is regarded as a leader in personal financial services in Canada. Consultants recommend balanced, diversified and professionally managed portfolios that reflect the client's goals, preferences and risk tolerance. They also look beyond investments to offer clients access to insurance, mortgages and other financial services.

PFP – Personal Financial Planner

Investors Group's Personal Financial Planner (PFP) software handles a wide range of potential financial planning needs – from projections and illustrations for basic financial planning concepts to the preparation of written financial plans which integrate all disciplines of financial planning, including investment, tax, retirement, education, risk management and estate planning.

Symphony Strategic Investment Planning™ Program

Symphony is Investors Group's approach to strategic investment planning. The Symphony program is designed to provide a scientifically constructed investment portfolio, consistent with the client's investment objectives and suited to their risk profile.

Charitable Giving Program

The Investors Group Charitable Giving Program is a donor-advised giving program which enables Canadians to make donations and build an enduring charitable giving legacy with considerably less expense and complexity than setting up and administering their own private foundation.

Mutual Funds

Investors Group had $74.9 billion in mutual fund assets under management at December 31, 2015 in 161 mutual funds covering a broad range of investment mandates. This compared with $73.5 billion in 2014, an increase of 2.0%.

Clients can diversify their holdings across investment managers, asset categories, investment styles, geography, capitalization and sectors through portfolios customized to meet their objectives.

Investors Group funds are managed by I.G. Investment Management, our own multi-disciplinary team of investment professionals with offices and advisors in North America, Europe, and Asia. Our global connections, depth of research and use of information technology provide us with the investment management capabilities to offer our clients investment management expertise suitable for the widest range of investment objectives. Investors Group also offers a

range of partner funds through advisory relationships with other investment management firms. Investors Group oversees these external investment advisors to ensure that their activities are consistent with Investors Group's investment philosophy and with the investment objectives and strategies of the funds that they advise. These advisory relationships include investment managers such as Mackenzie Financial Corporation, Putnam Investments Inc., PanAgora Asset Management, Inc., AGF Investments Inc., Beutel, Goodman & Company Ltd., Franklin Bissett Investment Management, Fidelity Investments Canada ULC, Templeton Investments Corp., LaSalle Investment Management (Securities), L.P., and Allianz Global Investors U.S. LLC.

Fund Performance

At December 31, 2015, 52.7% of Investors Group mutual funds had a rating of three stars or better from the Morningstar† fund ranking service and 19.7% had a rating of four or five stars. This compared to the Morningstar† universe of 63.8% for three stars or better and 28.0% for four and five star funds at December 31, 2015. Morningstar Ratings† are an objective, quantitative measure of a fund's three, five and ten year risk-adjusted performance relative to comparable funds.

Additions to Mutual Fund Product Offering

Investors Group continues to enhance the performance, scope and diversity of our investment offering with the introduction of new funds that are well-suited to the long-term diverse needs of Canadian investors.

Investors Group introduced two new investment options which became available for sale in January 2015:

- Investors U.S. Dividend Registered Fund which aims to provide long-term capital appreciation and income by investing primarily in a combination of U.S. dividend-paying equity securities and/or other types of income producing investments. Due to an exemption from U.S. withholding tax, no U.S. withholding tax will be charged on interest and dividends received by the Investors U.S. Dividend Registered Fund. This will result in a positive effect on performance.
- Allegro Income Balanced Portfolio Class which aims to provide fixed-income diversification and long-term capital appreciation by investing primarily in underlying funds that provide equity and/or fixed income exposure.

Investors Group introduced new investment options which became available for sale in July 2015:

- Three distinct Maestro Portfolios™ which are available in both unit trust and Corporate Class offerings.
  - – Maestro Income Balanced Portfolio / Portfolio Class
  - – Maestro Balanced Portfolio / Portfolio Class
  - – Maestro Growth Focused Portfolio / Portfolio Class

  The new portfolios combine a long-term investment management outlook with dynamic asset allocation strategies to adapt to market movements that may create investment opportunities. At December 31, 2015, the Maestro Portfolios' assets under management totalled $720 million.
- Two new low volatility mandates, available in both unit trust and Corporate Class offerings, which are designed for investors who want exposure to equity markets due to the higher growth potential that stocks offer, but in an investment that seeks lower volatility than the broader equity markets:
  - – Investors Low Volatility Canadian Equity Fund / Class which aim to provide long-term capital growth by investing primarily in Canadian equity securities. This mandate is advised by I.G. Investment Management, Ltd.
  - – Investors Low Volatility Global Equity Fund / Class which aim to provide long-term capital growth by investing primarily in companies around the world. This mandate is advised by I.G. Investment Management, Ltd. and sub-advised by Irish Life Investment Managers Limited.

Investors Group announced its first private pool, Investors Risk Parity Private Pool, which became available on January 25, 2016. While traditional asset allocation focuses on the allocation of capital, which results in a balanced portfolio's risk being driven by equities, risk parity utilizes a unique approach to diversification focusing on the allocation of risk. This approach aims to generate attractive risk-adjusted returns over time while diversifying risk across and within a broad array of asset classes. The private pool will be sub-advised by PanAgora Asset Management, a global leader in risk parity investment management.

Managed Asset and Multi-Manager Investment Programs

Investors Group offers several managed asset and multi-manager investment programs which include Investors Group Corporate Class Inc.™, as well as a complete line of portfolio funds and the *i*Profile managed asset program.

Investors Group Corporate Class Inc.™ is a broad tax-advantaged fund structure which features the ability to switch on a fee-free basis among 60 funds within the group of funds with no immediate tax consequences. These funds include 29 funds advised by I.G. Investment Management, 18 funds sub-advised by external

investment advisors, nine Corporate Class portfolios and four funds that are part of the *i*Profile program. At the end of 2015, the Corporate Class funds totalled $7.0 billion in assets compared with $5.8 billion in 2014.

Within the managed assets and multi-manager investment programs is a growing selection of asset allocation opportunities which include:

- **Allegro Portfolios™**: The seven Allegro Portfolios provide a single-step investment solution offering geographic, investment style, asset class, and investment advisor diversification based on Symphony asset allocation recommendations. Fund assets were $4.8 billion as of December 31, 2015 compared with $4.0 billion in the previous year.
- **Allegro Corporate Class Portfolios™**: The six portfolio classes offer clients a single-step, tax-efficient approach for their investments. The Series T option further benefits investors with monthly tax-deferred distributions in the form of return of capital. These diversified portfolios have something to offer for each category of the risk/return spectrum. Fund assets were $1.6 billion as of December 31, 2015 compared with $1.0 billion in the previous year.
- **Alto Portfolios™**: The Alto Portfolios provide a single-step investment solution offering geographic, investment style and asset class diversification based on Symphony asset allocation recommendations. The 11 portfolios include Investors Group funds and funds sub-advised by Mackenzie. Assets in the portfolios were $5.0 billion as of December 31, 2015 compared with $4.9 billion in the previous year.
- **Investors Group Portfolios**: These funds have assets of $10.6 billion as at December 31, 2015, compared with $10.6 billion in the previous year. The program is comprised of 10 funds which invest in 50 underlying Investors Group funds to provide a high level of diversification.
- **Maestro Portfolios and Corporate Class Portfolios**: The three portfolios and three corporate class portfolios were available for sale in July 2015, as described previously. At December 31, 2015, the Maestro Portfolio assets under management totalled $720 million.
- ***i*Profile™**: *i*Profile is a managed asset program which features several pools and Corporate Classes. The program is described more fully in the following section. At December 31, 2015, the *i*Profile program assets under management were $1.6 billion, an increase of 52.5% from $1.0 billion at December 31, 2014.

High Net Worth Offerings

High net worth clients represent a growing segment of our client base. Investors Group has several offerings to address the needs of high net worth clients and continues to look at ways to provide further offerings to this segment.

Pricing for Households with Investment Assets in Excess of $500,000

During 2012 and 2013, Investors Group introduced investment solutions with differentiated pricing for households with investments in Investors Group funds in excess of $500,000.

- Series J was introduced in the third quarter of 2012 and had assets of $22.8 billion at December 31, 2015, an increase of 90.9% from $12.0 billion at December 31, 2014.
- Series U was introduced in the third quarter of 2013 and provides a pricing structure which separates the advisory fee, which is charged directly to a client's account, from the fees charged to the underlying investment funds. At December 31, 2015, Series U assets under management had increased to $3.6 billion, compared to $1.5 billion at December 31, 2014, an increase of 148.1%.

In September 2015, Investors Group provided distributions to clients who had not transferred to these lower priced solutions when they were eligible, up to the earlier of when they transferred or to April 30, 2015.

***i*Profile™**

This is a unique portfolio management program, launched in 2001, that is available for households with assets held at Investors Group in excess of $250,000. *i*Profile investment portfolios have been designed to maximize returns and manage risk by diversifying across asset classes, management styles and geographic regions. The *i*Profile program has a pricing structure which separates the advisory fee, which is charged directly to a client's account, from the fees charged to the underlying investment funds.

The program is advised by a select group of global money management firms: I.G. Investment Management, Toron Capital Markets Inc., JPMorgan Asset Management (Canada) Inc., Jarislowsky, Fraser Limited, Baring International Investment Limited, Laketon Investment Management, Putnam Investments Canada ULC, Eagle Boston Investment Management, Inc., PanAgora Asset Management, Inc., Aristotle Capital Boston, LLC, and Lazard Asset Management LLC.

At December 31, 2015, the *i*Profile program assets under management were $1.6 billion, an increase of 52.5% from $1.0 billion at December 31, 2014.

Unbundled Fee Structures

A growing portion of Investors Group's client assets are in Series U and *i*Profile, which are products with unbundled fee structures where a separate advisory fee is charged to the client account by the dealer. At December 31, 2015, $5.2 billion, or 6.9% of Investors Group's mutual fund assets under management, were in products with unbundled fee structures, up 108.8% from $2.5 billion at December 31, 2014.

Segregated Funds

Investors Group has offered segregated funds since 2001 and introduced the Investors Group Series of Guaranteed Investment Funds (GIFs) in November 2009. GIFs are segregated fund policies issued by The Great-West Life Assurance Company and include 14 fund-of-fund segregated portfolios and six individual segregated funds. These segregated funds provide for long-term investment growth potential combined with risk management, full and partial maturity and death benefit guarantee features, potential creditor protection and estate planning efficiencies. Select GIF policies allow for a Lifetime Income Benefit (LIB) option to provide guaranteed retirement income for life. The investment components of these segregated funds are managed by Investors Group. At December 31, 2015, total segregated fund assets were $1.7 billion compared to $1.6 billion at December 31, 2014.

Insurance

Investors Group continues to be a leader in the distribution of life insurance in Canada. Through its arrangements with leading insurance companies, Investors Group offers a broad range of term, universal life, whole life, disability, critical illness, long-term care, personal health care coverage and group insurance. I.G. Insurance Services Inc. currently has distribution agreements with:

- The Canada Life Assurance Company
- The Great-West Life Assurance Company
- Sun Life Assurance Company of Canada
- The Manufacturers Life Insurance Company

Sales of insurance products as measured by new annualized premiums were $70 million for the year ended December 31, 2015, an increase of 8.9% from $65 million in 2014. The average number of policies sold by each insurance-licensed Consultant was 9.4 in 2015, compared to 8.0 in 2014. Distribution of insurance products is enhanced through Investors Group's Insurance Planning Specialists, located throughout Canada, who assist Consultants with the selection of insurance solutions.

Securities Operations

Investors Group Securities Inc. is an investment dealer registered in all Canadian provinces and territories providing clients with securities services to complement their financial and investment planning. Investors Group Consultants can refer clients to one of our Securities Planning Specialists available through Investors Group Securities Inc.

In 2015, we continued to enhance our services to accommodate individual securities owned by our clients within their financial plan. This involved further development of our systems and additional Securities Planning Specialists who work alongside our Consultants and are licensed to advise on individual securities. In addition, more of our Consultants became eligible and completed the transition of their registration to the Investment Industry Regulatory Organization of Canada (IIROC). These Consultants continue to operate in our established business model which has a managed asset focus delivered within a financial planning context.

More Consultants are expected to transition to the IIROC platform in 2016 and new products available under the IIROC platform are also scheduled to be introduced and include separately managed accounts and fee-based accounts which will enhance high net worth investment planning capabilities.

Mortgage Operations

Investors Group is a national mortgage lender that offers residential mortgages to Investors Group clients as part of a comprehensive financial plan. Investors Group Mortgage Planning Specialists are located throughout each province in Canada, and work with our clients and their Consultants as permitted by the regulations to develop mortgage strategies that meet the individual needs and goals of each client.

Through its mortgage banking operations, mortgages originated by Investors Group Mortgage Planning Specialists are sold to the Investors Mortgage and Short Term Income Fund, Investors Canadian Corporate Bond Fund, securitization programs, and institutional investors. Certain subsidiaries of Investors Group are Canada Mortgage and Housing Corporation (CMHC)-approved issuers of National Housing Act Mortgage-Backed Securities (NHA MBS) and are approved sellers of NHA MBS into the Canada Mortgage Bond Program (CMB Program). Securitization programs also include certain bank-sponsored asset-backed commercial paper (ABCP) programs. Residential mortgages are also held by Investors Group's intermediary operations.

Mortgage fundings for the twelve months ended December 31, 2015, were $2.0 billion, compared to $2.5 billion in 2014, a decrease of 20.5%. At December 31, 2015, mortgages serviced by Investors Group related to its mortgage banking operations totalled $10.4 billion, compared to $9.9 billion at December 31, 2014, an increase of 5.6%.

Solutions Banking†

Investors Group's Solutions Banking† continues to experience high rates of utilization by Consultants and clients. The offering consists of a wide range of products and services provided by the National Bank of Canada under a long-term distribution agreement and includes: investment loans, lines of credit, personal loans, creditor insurance, deposit accounts and credit cards. In April 2015, a new All-in-One product was introduced and has had strong early success. This product is a comprehensive cash management solution that integrates the features of a mortgage, term loan, revolving line of credit and deposit account to meet the needs of our clients while minimizing overall interest costs. Clients have access to a network of banking machines, as well as a private labeled client website and client service centre. The Solutions Banking† offering supports Investors Group's approach to delivering total financial solutions for our clients through a broad financial planning platform.

Through this offering, lending products of Investors Group clients totalled $2.9 billion at December 31, 2015.

Additional Products and Services

Investors Group also provides its clients with guaranteed investment certificates offered by Investors Group Trust Co. Ltd., as well as a number of other financial institutions.

Investors Group's earnings before interest and taxes are presented in Table 10.

2015 VS. 2014

Fee Income

Fee income is generated from the management, administration and distribution of Investors Group mutual funds. The distribution of insurance and Solutions Banking† products and the provision of securities services provide additional fee income.

Investors Group earns management fees for investment management services provided to its mutual funds, which depend largely on the level and composition of mutual fund assets under management. Management fees were $318.9 million in the fourth quarter of 2015, an increase of $1.5 million or 0.5% from $317.4 million in 2014. For the twelve months ended December 31, 2015, management fees were $1,277.9 million, an increase of $26.6 million or 2.1% from $1,251.3 million in 2014.

The net increase in management fees in the fourth quarter was due to the increase in average daily mutual fund assets of 3.7%, as shown in Table 9, offset by the decline in the management fee rate. The average

TABLE 10: OPERATING RESULTS - INVESTORS GROUP

THREE MONTHS ENDED ($ millions)	2015 DEC. 31	2015 SEP. 30	2014 DEC. 31	% CHANGE 2015 SEP. 30	% CHANGE 2014 DEC. 31
Revenues					
Management fees	$ 318.9	$ 319.3	$ 317.4	(0.1)%	0.5 %
Administration fees	76.4	76.1	71.3	0.4	7.2
Distribution fees	52.8	47.0	44.9	12.3	17.6
	448.1	442.4	433.6	1.3	3.3
Net investment income and other	17.6	16.8	15.8	4.8	11.4
	465.7	459.2	449.4	1.4	3.6
Expenses					
Commission	80.2	76.6	76.8	4.7	4.4
Asset retention bonus and premium	68.8	68.3	63.4	0.7	8.5
Non-commission	127.2	123.7	112.3	2.8	13.3
	276.2	268.6	252.5	2.8	9.4
Earnings before interest and taxes	$ 189.5	$ 190.6	$ 196.9	(0.6)%	(3.8)%

TWELVE MONTHS ENDED ($ millions)	2015 DEC. 31	2014 DEC. 31	% CHANGE
Revenues			
Management fees	$ 1,277.9	$ 1,251.3	2.1 %
Administration fees	302.8	278.6	8.7
Distribution fees	195.5	179.1	9.2
	1,776.2	1,709.0	3.9
Net investment income and other	70.1	51.4	36.4
	1,846.3	1,760.4	4.9
Expenses			
Commission	311.0	288.9	7.6
Asset retention bonus and premium	275.3	248.7	10.7
Non-commission	499.3	445.7	12.0
	1,085.6	983.3	10.4
Earnings before interest and taxes	$ 760.7	$ 777.1	(2.1)%

TABLE 11: MORTGAGE BANKING OPERATIONS – INVESTORS GROUP

THREE MONTHS ENDED ($ millions)	2015 DEC. 31	2015 SEP. 30	2014 DEC. 31	% CHANGE 2015 SEP. 30	% CHANGE 2014 DEC. 31
Total mortgage banking income					
Net interest income on securitized loans					
Interest income	$ 47.1	$ 46.8	$ 47.7	0.6 %	(1.3)%
Interest expense	30.6	32.4	34.8	(5.6)	(12.1)
Net interest income	16.5	14.4	12.9	14.6	27.9
Gains on sales[1]	3.8	4.7	5.8	(19.1)	(34.5)
Fair value adjustments	(2.3)	(1.3)	(1.5)	(76.9)	(53.3)
Other[2]	(1.4)	0.1	(2.0)	N/M	30.0
	$ 16.6	$ 17.9	$ 15.2	(7.3)%	9.2 %
Average mortgages serviced					
Securitizations	$ 6,813	$ 6,573	$ 6,377	3.7 %	6.8 %
Other	3,554	3,682	3,416	(3.5)	4.0
	$ 10,367	$ 10,255	$ 9,793	1.1 %	5.9 %
Mortgage sales to:[3]					
Securitizations	$ 653	$ 800	$ 754	(18.4)%	(13.4)%
Other[1]	275	282	310	(2.5)	(11.3)
	$ 928	$ 1,082	$ 1,064	(14.2)%	(12.8)%

management fee rate in the fourth quarter of 2015 was 168.6 basis points of daily mutual fund assets compared to 173.6 basis points in 2014. This decline in basis points resulted primarily from transfers of eligible clients into lower fee investment solutions.

The net increase in management fees in the twelve months ended December 31, 2015 was due to the increase in average daily mutual fund assets of 5.7%, as shown in Table 9. The average management fee rate for the twelve month period ended December 31, 2015 was 169.1 basis points compared to 174.7 basis points in 2014. This decline in basis points resulted primarily from transfers of eligible clients into lower fee investment solutions.

Management fee income and average management fee rates for both periods also reflected the effect of Investors Group having waived a portion of the investment management fees on its money market funds. For the three and twelve month periods in 2015, these waivers totalled $1.3 million and $4.1 million, respectively, compared to $0.8 million and $3.1 million in the prior year.

Investors Group receives administration fees for providing administrative services to its mutual funds and trusteeship services to its unit trust mutual funds, which also depend largely on the level and composition of mutual fund assets under management. Administration fees totalled $76.4 million in the current quarter compared to $71.3 million a year ago, an increase of 7.2%. Administration fees were $302.8 million for the twelve month period ended December 31, 2015 compared to $278.6 million in 2014, an increase of 8.7%. The increase in both periods resulted primarily from the change in average mutual fund assets under management.

Distribution fees are earned from:

- Redemption fees on mutual funds sold with a deferred sales charge.
- Portfolio fund distribution fees.
- Distribution of insurance products through I.G. Insurance Services Inc.
- Securities trading services provided through Investors Group Securities Inc.
- Banking services provided through Solutions Banking†.

Distribution fee income of $52.8 million for the fourth quarter of 2015 increased by $7.9 million from $44.9 million in 2014, due primarily to increases in distribution fee income from insurance products and redemption fees. For the twelve month period, distribution fee income of $195.5 million increased

TABLE 11: MORTGAGE BANKING OPERATIONS – INVESTORS GROUP (CONTINUED)

TWELVE MONTHS ENDED ($ millions)	2015 DEC. 31	2014 DEC. 31	% CHANGE
Total mortgage banking income			
Net interest income on securitized loans			
Interest income	$ 188.1	$ 177.9	5.7 %
Interest expense	132.1	130.2	1.5
Net interest income	56.0	47.7	17.4
Gains on sales[1]	20.7	14.8	39.9
Fair value adjustments	(1.3)	0.2	N/M
Other[2]	(5.2)	(13.1)	60.3
	$ 70.2	$ 49.6	41.5 %
Average mortgages serviced			
Securitizations	$ 6,617	$ 5,847	13.2 %
Other	3,544	3,268	8.4
	$ 10,161	$ 9,115	11.5 %
Mortgage sales to:[3]			
Securitizations	$ 2,438	$ 2,749	(11.3)%
Other[1]	1,198	1,049	14.2
	$ 3,636	$ 3,798	(4.3)%

(1) Represents sales to institutional investors through private placements, to Investors Mortgage and Short Term Income Fund, and to Investors Canadian Corporate Bond Fund as well as gains realized on those sales.

(2) Represents mortgage issuance and insurance costs, interest earned on warehoused mortgages, and servicing and other.

(3) Represents principal amounts sold.

by $16.4 million from $179.1 million in 2014. The increase in the twelve month period was due to increases in distribution fee income from insurance products and redemption fees. Redemption fee income varies depending on the level of deferred sales charge attributable to fee-based redemptions.

Net Investment Income and Other

Net investment income and other includes income related to mortgage banking operations and net interest income related to intermediary operations.

Net investment income and other was $17.6 million in the fourth quarter of 2015, an increase of $1.8 million from $15.8 million in 2014. For the year ended December 31, 2015, net investment income and other totalled $70.1 million, an increase of $18.7 million from $51.4 million in 2014.

Net investment income related to Investors Group's mortgage banking operations totalled $16.6 million for the fourth quarter of 2015 compared to $15.2 million in 2014, an increase of $1.4 million. For the year ended December 31, 2015, net investment income related to Investors Group's mortgage banking operations totalled $70.2 million compared to $49.6 million in 2014, an increase of $20.6 million. A summary of mortgage banking operations for the three and twelve month periods under review is presented in Table 11. The changes in mortgage banking income were due to:

- Net interest income on securitized loans – increased by $3.6 million and $8.3 million for the three and twelve month periods ended December 31, 2015 to $16.5 million and $56.0 million, respectively, compared to 2014. The increase resulted from higher average securitized loans.
- Gains realized on the sale of residential mortgages – decreased by $2.0 million and increased by $5.9 million for the three and twelve month periods ended December 31, 2015 to $3.8 million and $20.7 million, respectively, compared to 2014. The decrease in gains in the three month period resulted from a lower level of sale activity and the

increase in gains in the twelve month period resulted from a higher level of sale activity.

- Fair value adjustments – decreased by $0.8 million and $1.5 million for the three and twelve month periods ended December 31, 2015 to ($2.3) million and ($1.3) million, respectively, compared to 2014. The decrease during the three month period was primarily due to unfavourable fair value adjustments in the fourth quarter of 2015 on certain securitization related financial instruments. The decrease during the twelve month period was primarily due to higher favorable fair value adjustments during 2014 on certain securitization related financial instruments.
- Other – increased by $0.6 million and $7.9 million for the three and twelve month periods ended December 31, 2015 to ($1.4) million and ($5.2) million, respectively, compared to 2014. The increase was due to lower mortgage issuance and portfolio insurance costs.

Expenses

Investors Group incurs commission expense in connection with the distribution of its mutual funds and other financial services and products. Commissions are paid on the sale of these products and fluctuate with the level of sales. The expense for deferred selling commissions consists of the amortization of the asset over its useful life and the reduction of the unamortized deferred selling commission asset associated with redemptions. Commissions paid on the sale of mutual funds are deferred and amortized over a maximum period of seven years. Commission expense was $80.2 million for the fourth quarter of 2015, an increase of $3.4 million from $76.8 million in 2014. The increase resulted primarily from higher mutual fund commission amortization and compensation related to the distribution of other financial services and products. For the twelve month period, commission expense increased by $22.1 million to $311.0 million compared with $288.9 million in 2014. The increase was largely related to a new program that provides Consultants with higher income potential in their first two years with Investors Group. The increase also resulted from higher mutual fund commission amortization and compensation related to the distribution of other financial services and products.

Asset retention bonus and premium expense is comprised of the following:

- Asset retention bonus, which is based on the value of assets under management, increased by $4.0 million and $21.6 million for the three and twelve month periods ended December 31, 2015 to $57.4 million and $230.3 million, respectively, compared to 2014. The increase in both periods was primarily due to the increase in assets under management.
- Asset retention premium, which is a deferred component of compensation designed to promote Consultant retention, is based on assets under management at each year end. Asset retention premium expense increased by $1.4 million and $5.0 million for the three and twelve month periods ended December 31, 2015 to $11.4 million and $45.0 million, respectively, compared to 2014. The increase in both periods was related to the increase in assets under management.

Non-commission expenses incurred by Investors Group primarily relate to the support of the Consultant network, the administration, marketing and management of its mutual funds and other products, as well as sub-advisory fees related to mutual funds under management. Non-commission expenses were $127.2 million for the fourth quarter of 2015 compared to $112.3 million in 2014, an increase of $14.9 million or 13.3%. For the twelve month period, non-commission expenses were $499.3 million compared to $445.7 million in 2014, an increase of $53.6 million or 12.0%. Pension expense increased in the three and twelve month periods primarily as a result of interest rate declines which had the effect of increasing current service costs on the related pension obligation. Excluding the impact of the increased pension expense of $2.3 million and $9.4 million in the three and twelve month periods, the increase in non-commission expenses was 11.2% and 9.9%, respectively. These increases included additional expenses related to Consultant network expansion and other business development efforts as well as the timing of certain expenditures.

Q4 2015 VS. Q3 2015

Fee Income

Management fee income decreased by $0.4 million or 0.1% to $318.9 million in the fourth quarter of 2015 compared with the third quarter of 2015. The net decrease in management fees in the fourth quarter was due in part to the decrease in average daily mutual fund assets of 0.1% for the quarter as shown in Table 9. The average management fee rate in the fourth quarter of 2015 was 168.6 basis points of daily mutual fund assets, unchanged from the prior quarter.

Money market fund waivers totalled $1.3 million in the fourth quarter of 2015 compared with $1.1 million in the third quarter of 2015.

Administration fees increased to $76.4 million in the fourth quarter of 2015 from $76.1 million in the third quarter of 2015.

Distribution fee income of $52.8 million in the fourth quarter of 2015 increased by $5.8 million from $47.0 million in the third quarter primarily due to increases in distribution fee income from insurance product sales and redemption fees.

Net Investment Income and Other

Net investment income and other was $17.6 million in the fourth quarter of 2015 compared to $16.8 million in the previous quarter, an increase of $0.8 million primarily related to an increase in other income offset by a decrease in Investors Group's mortgage banking operations.

Net investment income related to Investors Group's mortgage banking operations totalled $16.6 million in the fourth quarter of 2015, a decrease of $1.3 million from $17.9 million in the previous quarter as shown in Table 11. The changes in mortgage banking income were due to:

- Net interest income on securitized loans – increased by $2.1 million in the fourth quarter of 2015 to $16.5 million, compared to $14.4 million in the previous quarter primarily due to higher margins.
- Gains realized on the sale of residential mortgages – decreased by $0.9 million in the fourth quarter of 2015 to $3.8 million, compared to $4.7 million in the previous quarter primarily due to lower margins.
- Fair value adjustments – decreased by $1.0 million in the fourth quarter of 2015 to ($2.3) million, compared to ($1.3) million in the previous quarter primarily due to unfavourable fair value adjustments on certain securitization related financial instruments.
- Other – decreased by $1.5 million in the fourth quarter of 2015 to ($1.4) million, compared to the third quarter primarily due to lower earnings on mortgages held pending sale or securitization to third parties.

Expenses

Commission expense in the current quarter was $80.2 million compared with $76.6 million in the previous quarter. The increase primarily related to higher compensation related to the distribution of other financial services and products. The asset retention bonus and premium expense increased by $0.5 million to $68.8 million in the fourth quarter of 2015.

Non-commission expenses were $127.2 million in the current quarter, an increase of $3.5 million or 2.8% from $123.7 million in the third quarter of 2015. This increase related primarily to the seasonal nature of certain expenses normally incurred in the fourth quarter.

Mackenzie Investments Review of the Business

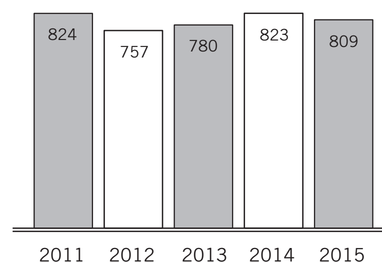
Mackenzie's core business is the provision of investment management and related services offered through diversified investment solutions, distributed through multiple distribution channels. We are committed to delivering strong investment performance for our clients by drawing on the experience and perspective gained through over 45 years in the investment management business.

Mackenzie earns revenue primarily from:

- Management fees earned from its mutual funds, sub-advised accounts and institutional clients.
- Fees earned from its mutual funds for administrative services.
- Redemption fees on deferred sales charge and low load units.

The largest component of Mackenzie's revenues is management fees. The amount of management fees depends on the level and composition of assets under management. Management fee rates vary depending on the investment objective and the account type of the underlying assets under management. Equity based mandates have higher management fee rates than fixed income mandates and retail mutual fund accounts have higher management fee rates than sub-advised and institutional accounts.

Fee Income – Mackenzie[1]
For the financial year *($ millions)*



[1] 2011 excludes discontinued operations

MACKENZIE STRATEGY

Mackenzie strives to ensure that the interests of shareholders, dealers, advisors, clients and employees are closely aligned.

Mackenzie's vision is to be committed to the financial success of investors, through their eyes. This impacts the strategic priorities we select to fulfil that commitment and drive future business growth. Our strategic mandate is two-fold: win in the Canadian retail space, and build meaningful strategic relationships, both in support of our goal to be the company of choice for institutional investors, financial advisors and individual investors. We aim to achieve this mandate by gathering the best minds in the investment industry, responding to changing needs of financial advisors and investors with distinctive and innovative solutions, and continuing to deliver institutional quality in everything we do.

Supporting this vision and strategic mandate are six key foundational capabilities that our employees strive to achieve:

- Delivering competitive and consistent risk-adjusted performance
- Launching high quality and innovative products and services
- Strengthening distribution and servicing capabilities
- Building brand leadership
- Focusing on operational excellence and process discipline
- Fostering a winning and innovative culture

Mackenzie seeks to maximize returns on business investment by focusing resources in areas that directly impact the success of our strategic mandate: investment management, distribution and client experience.

Founded in 1967, Mackenzie continues to build an investment advisory business through proprietary investment research and portfolio management while utilizing strategic partners in a selected sub-advisory capacity. Our business focuses on multiple distribution channels: Retail, Strategic Alliances and Institutional.

Mackenzie distributes its retail investment products through third party financial advisors. Mackenzie's sales teams work with many of the more than 30,000 independent financial advisors and their firms across Canada. In addition to its retail distribution team, Mackenzie also has specialty teams focused on strategic alliances and the institutional marketplace. Within the strategic alliance channel, Mackenzie offers certain series of its mutual funds and provides sub-advisory services to third party and related party investment programs offered by banks, insurance companies and other investment companies. Strategic alliances with related parties include providing advisory services to Investors Group, Investment Planning Counsel and Great-West Lifeco Inc. (Lifeco) subsidiaries, and also include a private label mutual fund arrangement with Lifeco subsidiary Quadrus. Within the strategic alliance channel, Mackenzie's primary distribution relationship is with the head office of the respective bank, insurance company or investment company. In the institutional channel Mackenzie provides investment

management services to pension plans, foundations and other institutions. Mackenzie attracts new institutional business through its relationships with pension and management consultants.

Gross sales and redemption activity in strategic alliance and institutional accounts can be more pronounced than in the retail channel given the relative size and the nature of the distribution relationships of these accounts. These accounts are also subject to ongoing reviews and rebalance activities which may result in a significant change in the level of assets under management.

Mackenzie is positioned to continue to build and enhance its distribution relationships given its team of experienced investment professionals, strength of its distribution network, broad product shelf, competitively priced products and its focus on client experience and investment excellence.

Sponsorship Initiatives

During the third quarter of 2014, Mackenzie announced a long-term sponsorship with Snow Sports Canada, involving seven premier national snow sports organizations as well as a five-year partnership with Alpine Ontario. Mackenzie's sponsorship initiatives continued into 2015 with the announcement of the following sports sponsorships:

- PGA TOUR Canada – during the second quarter of 2015, Mackenzie announced a new, six-year agreement with the PGA TOUR, making Mackenzie the umbrella sponsor of PGA TOUR Canada. The Tour was renamed the Mackenzie Tour – PGA TOUR Canada, effective immediately with the season-opening event in Vancouver. This is the first umbrella sponsorship for PGA Tour Canada and will enable it to continue to strengthen and grow the Tour throughout Canada.
- Snow Sports Canada – during the fourth quarter of 2015, Mackenzie announced the expansion of the agreement with Snow Sports Canada, which included a sponsorship agreement with the three time Olympic downhill racer Manny Osborne-Paradis.
- Snowboard Ontario – in January 2016, Mackenzie announced a new, three-year agreement with Snowboard Ontario, making Mackenzie the Title Sponsor. This partnership will create stronger grassroots programs and high performance initiatives.

Branding

On October 26, 2015, Mackenzie introduced a new brand identity, with the tagline: Confidence in a changing world. The new branding reflects the company's values, stability, and strengths, including its rich heritage as a firm committed to innovation and thought leadership. The new branding also reflects a renewed commitment to being the best partner to advisors, top investment talent and an unwavering commitment to investor success.

Rationalization Activities

During the fourth quarter of 2015, Mackenzie engaged in rationalization activities, including the closure of the investment management office in Singapore as well as implementing other personnel changes, in order to redeploy resources towards other corporate priorities which management believes will provide greater benefits to stakeholders over time. Costs associated with these rationalization activities, including severance, were recorded during the fourth quarter as a non-IFRS measure within Restructuring and other charges.

ASSETS UNDER MANAGEMENT

The changes in mutual fund assets under management are summarized in Table 12 and the changes in total assets under management are summarized in Table 13. At December 31, 2015, Mackenzie's mutual fund and total assets under management were $48.4 billion and $61.7 billion, respectively.

The change in Mackenzie's assets under management is determined by the increase or decrease in the market value of the securities held in the portfolios of investments and by the level of sales as compared to the level of redemptions.

Change in Assets under Management – 2015 vs. 2014

Mackenzie's mutual fund assets under management were $48.4 billion at December 31, 2015, a decrease of 0.7% from $48.8 billion at December 31, 2014. Mackenzie's sub-advisory, institutional and other accounts at December 31, 2015 were $13.2 billion, a decrease of 40.2% from $22.1 billion last year. Mackenzie's total assets under management at December 31, 2015 were $61.7 billion, a decrease of 13.0% from $70.9 billion at December 31, 2014.

On June 5, 2015, MD Financial Management Inc. ("MD") reassigned sub-advisory responsibilities on four fixed income mandates advised by Mackenzie.

TABLE 12: CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – MACKENZIE

THREE MONTHS ENDED ($ millions)	2015 DEC. 31	2015 SEP. 30	2014 DEC. 31	% CHANGE 2015 SEP. 30	% CHANGE 2014 DEC. 31
Sales	$ 1,652	$ 1,485	$ 1,555	11.2 %	6.2 %
Redemptions	2,079	1,665	2,026	24.9	2.6
Net sales (redemptions)[1][2]	(427)	(180)	(471)	(137.2)	9.3
Market and income	1,452	(2,253)	479	N/M	203.1
Net change in assets	1,025	(2,433)	8	N/M	N/M
Beginning assets	47,420	49,853	48,774	(4.9)	(2.8)
Ending assets	$ 48,445	$ 47,420	$ 48,782	2.2 %	(0.7)%
Daily average mutual fund assets	$ 48,493	$ 49,197	$ 48,311	(1.4)%	0.4 %

TWELVE MONTHS ENDED ($ millions)	2015 DEC. 31	2014 DEC. 31	% CHANGE
Sales	$ 6,965	$ 7,070	(1.5)%
Redemptions	8,223	7,279	13.0
Net sales (redemptions)[2][3]	(1,258)	(209)	N/M
Market and income	921	2,967	(69.0)
Net change in assets	(337)	2,758	N/M
Beginning assets	48,782	46,024	6.0
Ending assets	$ 48,445	$ 48,782	(0.7)%
Daily average mutual fund assets	$ 49,683	$ 48,269	2.9 %

(1) *During the fourth quarter of 2015, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of $58 million, redemptions of $297 million and net redemptions of $239 million.*

(2) *During the fourth quarter of 2014, a third party investment program which includes Mackenzie mutual funds made fund allocation changes which resulted in gross sales of $62 million, redemptions of $284 million and net redemptions of $222 million.*

(3) *During the twelve months ended December 31, 2015, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of $199 million, redemptions of $894 million and net redemptions of $695 million.*

The impact on Mackenzie's pre-tax earnings from these mandate changes is not meaningful. The mandates had $10.3 billion in assets on June 5, 2015 and are included in Mackenzie's redemptions in the twelve months ended December 31, 2015 in Table 13. Following the change, Mackenzie continues to advise MD on a number of fixed income, balanced and equity mandates.

In the three months ended December 31, 2015, Mackenzie's mutual fund gross sales were $1.7 billion, an increase of 6.2% from $1.6 billion in the comparative period last year. Mutual fund redemptions in the current period were $2.1 billion, an increase of 2.6% from last year. Mutual fund net redemptions for the three months ended December 31, 2015 were $427 million, as compared to net redemptions of $471 million last year. During the current quarter, market and income resulted in assets increasing by $1.5 billion as compared to an increase of $479 million last year.

During the fourth quarter of 2015, certain third party programs, which include Mackenzie mutual funds, made fund allocation changes resulting in gross sales of $58 million, redemptions of $297 million and net redemptions of $239 million. During the fourth quarter of 2014, a third party investment program, which includes Mackenzie mutual funds, made fund allocation changes resulting in gross sales of $62 million, redemptions of $284 million and net redemptions of $222 million. Excluding these transactions, mutual fund gross sales increased 6.8% in the three months ended December 31, 2015 compared to last year and net redemptions were $188 million in the current quarter compared to net redemptions of $249 million last year.

TABLE 13: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – MACKENZIE

THREE MONTHS ENDED ($ millions)	2015 DEC. 31	2015 SEP. 30	2014 DEC. 31	% CHANGE 2015 SEP. 30	% CHANGE 2014 DEC. 31
Sales	$ 2,593	$ 2,623	$ 3,321	(1.1)%	(21.9)%
Redemptions	2,959	2,749	3,173	7.6	(6.7)
Net sales (redemptions)[(1)]	(366)	(126)	148	(190.5)	N/M
Market and income	1,728	(2,608)	774	N/M	123.3
Net change in assets	1,362	(2,734)	922	N/M	47.7
Beginning assets	60,291	63,025	69,954	(4.3)	(13.8)
Ending assets	$ 61,653	$ 60,291	$ 70,876	2.3 %	(13.0)%
Consists of:					
Mutual funds	$ 48,445	$ 47,420	$ 48,782	2.2 %	(0.7)%
Sub-advisory, institutional and other accounts	13,208	12,871	22,094	2.6	(40.2)
	$ 61,653	$ 60,291	$ 70,876	2.3 %	(13.0)%
Monthly average total assets[(3)]	$ 61,682	$ 62,230	$ 69,834	(0.9)%	(11.7)%

TWELVE MONTHS ENDED ($ millions)	2015 DEC. 31	2014 DEC. 31	% CHANGE
Sales	$ 11,938	$ 13,968	(14.5)%
Redemptions	22,533	12,725	77.1
Net sales (redemptions)[(2)]	(10,595)	1,243	N/M
Market and income	1,372	4,318	(68.2)
Net change in assets	(9,223)	5,561	N/M
Beginning assets	70,876	65,315	8.5
Ending assets	$ 61,653	$ 70,876	(13.0)%
Monthly average total assets[(3)]	$ 67,535	$ 69,250	(2.5)%

(1) During the fourth quarter of 2015, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of $58 million, redemptions of $297 million and net redemptions of $239 million.

During the fourth quarter of 2014, a third party investment program which includes Mackenzie mutual funds made fund allocation changes which resulted in gross sales of $62 million, redemptions of $284 million and net redemptions of $222 million. In addition, there were tactical rebalances by an institutional client that resulted in gross sales of $448 million, redemptions of $94 million and net sales of $354 million into separately managed account investment mandates advised by Mackenzie.

(2) Included in the twelve months ended December 31, 2015 are the following transactions:

– MD Financial Management which re-assigned sub-advisory responsibilities on four fixed income mandates (totalling $10.3 billion) advised by Mackenzie.

– Certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of $199 million, redemptions of $894 million and net redemptions of $695 million.

Included in the twelve months ended December 31, 2014, are the following transactions:

– Tactical rebalances by an institutional client that resulted in gross sales of $1.6 billion, redemptions of $1.2 billion and net sales of $389 million into separately managed account investment mandates advised by Mackenzie.

– A third party investment program which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of $62 million, redemptions of $284 million and net redemptions of $222 million.

(3) Based on daily average mutual fund assets and month-end average sub-advisory, institutional and other assets.

In the three months ended December 31, 2015, Mackenzie's gross sales for total assets under management were $2.6 billion, a decrease of 21.9% from $3.3 billion in the comparative period last year. Redemptions in the current period were $3.0 billion compared to $3.2 billion last year. Net redemptions for the three months ended December 31, 2015 were $366 million, as compared to net sales of $148 million last year. During the fourth quarter of 2014, there were tactical rebalances by an institutional client that resulted in gross sales of $448 million, redemptions of $94 million and net sales of $354 million. Excluding these transactions as well as the mutual fund allocation changes previously described, net redemptions were $127 million in the fourth quarter of 2015 compared to net sales of $16 million in the fourth quarter of 2014. During the current quarter, market and income resulted in assets increasing by $1.7 billion as compared to an increase of $774 million last year.

In the twelve months ended December 31, 2015, Mackenzie's mutual fund gross sales were $7.0 billion, a decrease of 1.5% from $7.1 billion in the comparative period last year. Mutual fund redemptions in the current period were $8.2 billion, an increase of 13.0% from the previous year. Mutual fund net redemptions for the twelve months ended December 31, 2015 were $1.3 billion, as compared to net redemptions of $209 million last year. During the twelve months ended December 31, 2015, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of $199 million, redemptions of $894 million and net redemptions of $695 million. Excluding these transactions in 2015 and the transactions in the fourth quarter of 2014 discussed previously, gross sales declined 3.5% and redemptions increased 4.8% in the twelve months ended December 31, 2015 compared to last year and net redemptions were $563 million compared to net sales of $13 million last year. During the period, market and income resulted in assets increasing by $921 million as compared to an increase of $3.0 billion last year.

Redemptions of long-term mutual funds in the three and twelve month periods ended December 31, 2015, were $2.0 billion and $7.9 billion, respectively, as compared to $1.9 billion and $7.0 billion last year. Mackenzie's annualized quarterly redemption rate for long-term mutual funds was 16.7% in the fourth quarter of 2015, compared to 16.1% in the fourth quarter of 2014. Mackenzie's annualized quarterly redemption rate for long-term funds, excluding rebalance transactions, was 14.3% in the fourth quarter of 2015 compared to 13.7% in the fourth quarter of 2014. Mackenzie's twelve-month trailing redemption rate for long-term mutual funds was 16.2% at December 31, 2015, as compared to 14.6% last year. Mackenzie's twelve-month trailing redemption rate for long-term funds, excluding rebalance transactions, was 14.3% at December 31, 2015, compared to 14.0% at December 31, 2014. The corresponding average twelve-month trailing redemption rate for long-term mutual funds for all other members of IFIC was approximately 14.8% at December 31, 2015. Mackenzie's twelve-month trailing redemption rate is comprised of the weighted average redemption rate for front-end load assets, deferred sales charge and low load assets with redemption fees, and deferred sales charge assets without redemption fees (matured assets). Generally, redemption rates for front-end load assets and matured assets are higher than the redemption rates for deferred sales charge and low load assets with redemption fees.

In the twelve months ended December 31, 2015, Mackenzie's gross sales for total assets under management were $11.9 billion, a decrease of 14.5% from $14.0 billion in the comparative period last year. Redemptions in the current period were $22.5 billion compared to $12.7 billion last year. Net redemptions for the twelve months ended December 31, 2015, were $10.6 billion, as compared to net sales of $1.2 billion last year. During the twelve months ended December 31, 2014, there were tactical rebalances by an institutional client that resulted in gross sales of $1.6 billion, redemptions of $1.2 billion and net sales of $389 million. Excluding these transactions, as well as the MD transaction in the second quarter of 2015 and the mutual fund allocation changes made by third party programs during 2015 and 2014 discussed previously, net sales were $400 million in the twelve months ended December 31, 2015, as compared to net sales of $1.1 billion last year. During the period, market and income resulted in assets increasing by $1.4 million as compared to an increase of $4.3 billion last year.

Change in Assets under Management – Q4 2015 vs. Q3 2015

Mackenzie's mutual fund assets under management were $48.4 billion at December 31, 2015, an increase of 2.2% from $47.4 billion at September 30, 2015. Mackenzie's sub-advisory, institutional and other accounts increased 2.6% from $12.9 billion to $13.2 billion at December 31, 2015. Mackenzie's total assets under management at December 31, 2015, were $61.7 billion, an increase of 2.3% from $60.3 billion at September 30, 2015, as summarized in Table 13.

For the quarter ended December 31, 2015, Mackenzie mutual fund gross sales were $1.7 billion, an increase of 11.2% from the third quarter of 2015. Mutual fund redemptions, which totalled $2.1 billion for the fourth quarter, increased 24.9% from the previous quarter. Net redemptions of Mackenzie mutual funds for the current quarter were $427 million compared with net redemptions of $180 million in the previous quarter. Excluding the other mutual fund transactions in the fourth quarter of 2015 discussed previously, gross sales increased 7.3% and redemptions increased 7.0% in the fourth quarter of 2015 compared to the third quarter, and net redemptions were $188 million compared to net redemptions of $180 million in the third quarter.

Redemptions of long-term mutual fund assets in the current quarter were $2.0 billion, compared to $1.6 billion in the third quarter of 2015. Mackenzie's annualized quarterly redemption rate for long-term mutual funds for the current quarter was 16.7%, compared to 13.0% for the third quarter. Mackenzie's annualized quarterly redemption rate for long-term funds, excluding rebalance transactions, was 14.3% in the fourth quarter of 2015. There were no rebalance transactions for the third quarter of 2015. Net redemptions of long-term funds for the current quarter were $454 million compared to net redemptions of $195 million in the previous quarter. Excluding rebalance transactions during the fourth quarter of 2015, net redemptions of long-term funds were $215 million.

INVESTMENT MANAGEMENT

Mackenzie delivers its investment offerings through a boutique structure, with ten separate in-house investment teams which each have a distinct focus and investment approach. This boutique approach promotes diversification of styles and ideas and provides Mackenzie with a breadth of capabilities. Oversight is conducted through a common process intended to promote superior risk-adjusted returns over time. This process is focused upon i) identifying and encouraging each team's performance edge, ii) promoting best practices in portfolio construction, and iii) emphasizing risk management.

In addition to its own investment teams, Mackenzie supplements its investment capabilities through the use of third party sub-advisors in selected areas. These sub-advisors include Putnam Investments Inc., JP Morgan Asset Management Inc., and Waddell & Reed Financial, Inc.

Mackenzie has introduced or announced a number of changes to its investment teams:

- During the third quarter of 2015, Mackenzie added the Systematic Strategies team, which assumed responsibility of the Mackenzie Canadian Large Cap Growth Fund and the Mackenzie Canadian Large Cap Balanced Fund.
- During the fourth quarter of 2015, Mackenzie announced the termination of two investment teams, Asian Fixed Income and Emerging Markets Equity, with the closure of its Singapore investment management office.
- On January 7, 2016, Mackenzie announced the addition of the Canadian Growth team to its in-house investment boutiques, which reflects the internalization of investment professionals from Bluewater Investment Management Inc. This Lipper award-winning team has served Mackenzie through Bluewater's exclusive sub-advisory relationship to Mackenzie on the Mackenzie Canadian Growth Fund and the Mackenzie Canadian Growth Balanced Fund, and this team will continue to be responsible for these portfolios.

Mackenzie's assets under management are diversified by investment objective as set out in Table 14. The development of a broad range of investment capabilities and products has proven to be, and continues to be, a key strength of the organization in satisfying the evolving financial needs of our clients.

Long-term investment performance is a key measure of Mackenzie's ongoing success. At December 31, 2015, 29.1% of Mackenzie mutual funds were rated in the top two performance quartiles for the one year time frame, 25.4% for the three year time frame and 37.6% for the five year time frame. Mackenzie also monitors its fund performance relative to the ratings it receives on its mutual funds from the Morningstar† fund ranking service. At December 31, 2015, 59.9% of Mackenzie mutual funds measured by Morningstar† had a rating of three stars or better and 19.7% had a rating of four or five stars. This compared to the Morningstar† universe of 63.8% for three stars or better and 28.0% for four and five star funds at December 31, 2015. These ratings exclude the Quadrus Group of Funds†.

PRODUCTS

Mackenzie's diversified suite of investment products is designed to meet the needs and goals of investors. Mackenzie continues to evolve its product shelf by providing enhanced investment solutions for financial advisors to offer their investment clients.

During the third quarter of 2014, Mackenzie completed a comprehensive retail pricing review and announced, on October 8, 2014, changes designed to

TABLE 14: ASSETS UNDER MANAGEMENT BY INVESTMENT OBJECTIVE – MACKENZIE

($ millions)	2015		2014	
Equity				
Domestic	$ 16,203	26.3 %	$ 16,534	23.3 %
Foreign	20,702	33.5	19,641	27.7
	36,905	59.8	36,175	51.0
Balanced				
Domestic	10,267	16.7	12,352	17.5
Foreign	4,685	7.6	3,289	4.6
	14,952	24.3	15,641	22.1
Fixed Income				
Domestic	8,308	13.5	17,480	24.7
Foreign	84	0.1	61	0.1
	8,392	13.6	17,541	24.8
Money Market				
Domestic	1,404	2.3	1,519	2.1
Total	$ 61,653	100.0 %	$ 70,876	100.0 %
Consists of:				
Mutual funds	$ 48,445	78.6 %	$ 48,782	68.8 %
Sub-advisory, institutional and other accounts	13,208	21.4	22,094	31.2
	$ 61,653	100.0 %	$ 70,876	100.0 %

simplify and enhance its approach to the retail pricing of its mutual funds. Mackenzie is focused on delivering clear, consistent and competitive pricing on its retail mutual fund product line-up. As part of these pricing changes, which became effective on September 29, 2014, Mackenzie aligned management fees within the income and balanced asset class categories resulting in management fee reductions to 13 mutual funds. The decreases ranged from 0.15% to 0.25% per annum of the asset value of the fund. Mackenzie also lowered fixed rate annual administration fees on Series A, C, SC and T of many funds to align the rates applied within each asset class. In addition, administration fees were lowered on Mackenzie's entire Series F offering. Series F is available to retail investors who are enrolled in a dealer-sponsored fee-for-service or wrap program.

Initiatives undertaken during 2015 included the following:

- May 20 – Mackenzie launched the Mackenzie Global Tactical Investment Grade Bond Fund to help investors diversify their fixed income. This product maintains an overall average credit quality of A- or higher, while employing a qualitative and quantitative approach to selection across the global fixed income universe.
- May 20 – Mackenzie doubled its U.S. dollar (USD) funds by launching four new mandates: Mackenzie USD Ultra Short Duration Income Fund, Mackenzie USD Global Tactical Bond Fund, Mackenzie USD Global Strategic Income Fund, and Mackenzie USD Convertible Securities Fund. The result is a comprehensive suite of USD solutions to meet longevity and income needs, while controlling volatility. These funds are primarily exposed to U.S. dollars through U.S. securities and/or hedging non-U.S. currency exposure back to U.S. dollars, and can be purchased, settled, redeemed and have their performance and net asset value reported in U.S. dollars.
- October 26 – Mackenzie launched the Mackenzie Diversified Alternatives Fund. This fund is at the forefront of alternative mutual funds in Canada and provides the broadest exposure to non-traditional asset classes available to Canadian retail investors. The fund offers a holistic, broadly diversified portfolio of alternative classes such as real estate,

infrastructure, emerging market debt, microcap equities, high yield, foreign currencies, preferred shares and commodities. In addition, it provides access to an absolute return strategy by investing in Mackenzie Unconstrained Fixed Income Fund. This fund is designed to complement a traditional balanced portfolio of large cap developed market equities and investment grade bonds by increasing diversification and enhancing risk-adjusted returns.

- October 26 – Mackenzie announced the addition of two new series, Series FB and FB5. These new series are offered across its retail mutual fund product shelf of 72 mutual funds and are designed to provide advisors who currently lack operational infrastructure with the ability to offer fee-based products. This allows the advisor an opportunity to negotiate an Advisor Service Fee with their clients for a minimum account investment of $10,000. Mackenzie also announced an optional, negotiated reduction in embedded trailing commissions. This solution, like Advisor Service Fees, allows advisors to tailor the level of trailing commissions associated with a client account.
- December 14 – Mackenzie launched Private Wealth Pools, a suite of eight unique mandates that blend a carefully modeled long-term strategic asset allocation with a multi-manager structure that employs experienced professionals from Mackenzie's investment boutiques, each with their own style and strategy. In addition, four mandates are also offered through a corporate class structure. These pools are provided through Mackenzie's Private Wealth Solutions, a program that includes Mackenzie's Preferred Pricing program and Private Wealth Counsel service, and are exclusively for affluent investors with a minimum initial investment of $150,000. These institutional style investment pools offer a wide range of investment options that include capital preservation, balanced and growth mandates, all designed to provide high net worth investors an attractive combination of risk and return.

Mackenzie's earnings before interest and taxes are presented in Table 15.

2015 VS. 2014

Revenues

The largest component of Mackenzie's revenues is management fees. The amount of management fees depends on the level and composition of assets under management. Management fee rates vary depending on the investment objective and the account type of the underlying assets under management. For example, equity-based mandates have higher management fee rates than fixed income mandates and retail mutual fund accounts have higher management fee rates than sub-advised and institutional accounts. The majority of Mackenzie's mutual fund assets are purchased on a retail basis.

Within Mackenzie's retail mutual fund offering, certain series are offered for fee-based programs of participating dealers whereby dealer compensation is charged directly by the dealer to a client (primarily Series F). As Mackenzie does not pay the dealer compensation, these series have lower management fees.

TABLE 15: OPERATING RESULTS - MACKENZIE

THREE MONTHS ENDED ($ millions)	2015 DEC. 31	2015 SEP. 30	2014 DEC. 31	% CHANGE 2015 SEP. 30	% CHANGE 2014 DEC. 31
Revenues					
Management fees	$ 169.8	$ 173.8	$ 175.4	(2.3)%	(3.2)%
Administration fees	23.8	24.3	26.2	(2.1)	(9.2)
Distribution fees	2.4	2.5	2.8	(4.0)	(14.3)
	196.0	200.6	204.4	(2.3)	(4.1)
Net investment income and other	1.1	0.7	(0.4)	57.1	N/M
	197.1	201.3	204.0	(2.1)	(3.4)
Expenses					
Commission	13.8	14.1	15.4	(2.1)	(10.4)
Trailing commission	60.1	61.2	59.3	(1.8)	1.3
Non-commission	72.3	71.5	76.3	1.1	(5.2)
	146.2	146.8	151.0	(0.4)	(3.2)
Earnings before interest and taxes	$ 50.9	$ 54.5	$ 53.0	(6.6)%	(4.0)%

TWELVE MONTHS ENDED ($ millions)	2015 DEC. 31	2014 DEC. 31	% CHANGE
Revenues			
Management fees	$ 700.2	$ 706.2	(0.8)%
Administration fees	98.5	105.5	(6.6)
Distribution fees	10.6	11.5	(7.8)
	809.3	823.2	(1.7)
Net investment income and other	6.0	2.7	122.2
	815.3	825.9	(1.3)
Expenses			
Commission	58.1	63.5	(8.5)
Trailing commission	246.4	235.2	4.8
Non-commission	294.5	281.4	4.7
	599.0	580.1	3.3
Earnings before interest and taxes	$ 216.3	$ 245.8	(12.0)%

At December 31, 2015, these series had $3.6 billion in assets, an increase of 25.8% from the prior year.

Management fees were $169.8 million for the three months ended December 31, 2015, a decrease of $5.6 million or 3.2% from $175.4 million last year. The net decrease in management fees was due to the decline in average assets under management of 11.7% in the three months ended December 31, 2015, offset by an increase in average management fee rate. Mackenzie's average management fee rate in the fourth quarter of 2015 was 109.5 basis points compared to 99.7 basis points in 2014. The increase in average management fee rate was due to a change in the composition of assets under management, including the impact of having a greater share in retail-priced products, following the loss of certain sub-advisory mandates to MD Financial Management Inc. as previously discussed.

Management fees were $700.2 million for the twelve months ended December 31, 2015, a decrease of $6.0 million or 0.8% from $706.2 million last year. The net decrease in management fees was due to the decline in average assets under management of 2.5% offset by an increase in average management fee rate. Mackenzie's average management fee rate in the twelve months ended December 31, 2015 was 103.9 basis points compared to 102.0 basis points in 2014. The increase in average management fee rate was due to having a greater share in retail-priced products, as discussed previously, offset by pricing changes made to retail mutual funds which became effective on September 29, 2014. The impact of the pricing changes was a decline in management fees of $5.8 million for the twelve months ended December 31, 2015.

Mackenzie earns administration fees primarily from providing services to its mutual funds. Administration fees were $23.8 million for the three months ended December 31, 2015, as compared to $26.2 million in 2014. Administration fees were $98.5 million for the twelve months ended December 31, 2015, compared to $105.5 million in 2014. Effective April 1, 2015, as part of the retail pricing changes previously announced, the fund operating expense adjustment that had been in place since August 1, 2007 was discontinued. Under this adjustment, Mackenzie was entitled to a payment from certain funds should such funds not exceed a pre-established level of net assets. The impact of eliminating the fund operating expense adjustment was a decline in administration fees of $1.7 million and $5.0 million for the three and twelve months ended December 31, 2015.

Mackenzie earns distribution fee income on redemptions of mutual fund assets sold on a deferred sales charge purchase option and on a low load purchase option. Redemption fees charged for deferred sales charge assets range from 5.5% in the first year and decrease to zero after seven years. Redemption fees for low load assets range from 2.0% to 3.0% in the first year and decrease to zero after two or three years, depending on the purchase option. Distribution fee income in the three months ended December 31, 2015 was $2.4 million, a decrease of $0.4 million from $2.8 million last year. Distribution fee income in the twelve months ended December 31, 2015 was $10.6 million, a decrease of $0.9 million from $11.5 million last year.

Net investment income and other includes investment returns related to Mackenzie's investments in proprietary funds. These investments are generally made in the process of launching a fund and are sold as third party investors subscribe. Net investment income and other was $1.1 million for the three months ended December 31, 2015 compared to a loss of $0.4 million last year and $6.0 million for the twelve months ended December 31, 2015, an increase of $3.3 million from $2.7 million last year.

Expenses

Mackenzie's expenses were $146.2 million for the three months ended December 31, 2015, a decrease of $4.8 million or 3.2% from $151.0 million in 2014. Expenses for the twelve months ended December 31, 2015 were $599.0 million, an increase of $18.9 million or 3.3% from $580.1 million last year.

Mackenzie pays selling commissions to the dealers that sell its mutual funds on a deferred sales charge and low load purchase option. The expense for deferred selling commissions consists of the amortization of the asset over its useful life and the reduction of the unamortized deferred selling commission asset associated with redemptions. Mackenzie amortizes selling commissions over a maximum period of three years from the date of original purchase of the applicable low load assets and over a maximum period of seven years from the date of original purchase of the applicable deferred sales charge assets. Commission expense was $13.8 million in the three months ended December 31, 2015, as compared to $15.4 million last year. Commission expense in the twelve months ended December 31, 2015 was $58.1 million compared to $63.5 million in 2014. This decline is consistent with the lower amount of deferred sales commissions paid in recent years combined with lower write-offs of the unamortized balance of deferred sales commissions associated with redemptions.

Trailing commissions paid to dealers are paid on certain classes of retail mutual funds and are calculated as a percentage of mutual fund assets under management. These fees vary depending on the fund type and the purchase option upon which the fund was sold: front-end, deferred sales charge or low load. Trailing commissions were $60.1 million in the three months ended December 31, 2015, an increase of $0.8 million or 1.3% from $59.3 million last year. Trailing commissions in the twelve months ended December 31, 2015 were $246.4 million, an increase of $11.2 million or 4.8% from $235.2 million last year. The change in trailing commissions resulted both from the period over period change in average mutual fund assets as well as a change in the composition of mutual fund assets towards series of mutual funds that pay higher trailer rates. During the period, this included the impact of having a higher weighting of no load series of funds, which are subject to higher trailer rates. Trailing commissions as a percentage of average mutual fund assets under management were 49.6 basis points in both the three and twelve months ended December 31, 2015, compared to 49.1 basis points and 48.7 basis points, respectively, in 2014.

Non-commission expenses are incurred by Mackenzie in the administration, marketing and management of its assets under management. Non-commission expenses were $72.3 million in the three months ended December 31, 2015, a decrease of $4.0 million or 5.2% from $76.3 million in 2014. Non-commission expenses in the twelve months ended December 31, 2015 were $294.5 million, an increase of $13.1 million or 4.7% from $281.4 million in 2014. Mackenzie continues to attract, retain and develop employees and invest strategically in systems and technology to enhance its future operating capabilities while at the same time investing in revenue generating initiatives to further grow its business.

Q4 2015 VS. Q3 2015

Revenues

Mackenzie's revenues were $197.1 million for the current quarter, a decrease of $4.2 million or 2.1% from $201.3 million in the third quarter of 2015.

Management fees were $169.8 million for the current quarter, a decrease of $4.0 million or 2.3% from $173.8 million in the third quarter of 2015. Factors contributing to the net decrease in management fees are as follows:

- Average total assets under management were $61.7 billion in the current quarter compared to $62.2 billion in the prior quarter, a decrease of 0.9%.
- Mackenzie's average management fee rate was 109.5 basis points in the current quarter as compared to 111.1 basis points in the third quarter of 2015 due to a change in the composition of assets under management.

Administration fees were $23.8 million in the current quarter, a decrease of $0.5 million or 2.1% from $24.3 million in the prior quarter. The decrease in the quarter was due to a decline in average assets under management.

Net investment income and other includes investment returns related to Mackenzie's investments in proprietary funds. These investments are generally made in the process of launching a fund and are sold as third party investors subscribe. Net investment income and other was $1.1 million for the current quarter compared to $0.7 million in the third quarter of 2015.

Expenses

Mackenzie's expenses were $146.2 million for the current quarter, a decrease of $0.6 million or 0.4% from $146.8 million in the third quarter of 2015.

Commission expense related to the amortization of selling commissions was $13.8 million in the quarter ended December 31, 2015, a decrease of 2.1% from the third quarter of 2015.

Trailing commissions were $60.1 million in the current quarter, a decrease of $1.1 million or 1.8% from $61.2 million in the third quarter of 2015. The change in trailing commissions reflects the 1.4% period over period decrease in average mutual fund assets under management. The effective trailing commission rate for the fourth quarter was 49.6 basis points, relatively consistent with the 49.7 basis points in the third quarter of 2015.

Non-commission expenses were $72.3 million in the current quarter compared to $71.5 million in the third quarter of 2015.

Corporate and Other
Review of Segment Operating Results

The Corporate and Other segment includes net investment income not allocated to the Investors Group or Mackenzie segments, the Company's proportionate share of earnings of its affiliate, Great-West Lifeco Inc. (Lifeco), operating results for Investment Planning Counsel Inc., other income, as well as consolidation elimination entries.

Corporate and other earnings before interest and taxes are presented in Table 16.

2015 VS. 2014

Net investment income and other increased to $31.0 million in the fourth quarter of 2015 compared to $30.8 million in 2014. Net investment income and other increased to $119.1 million for the year ended December 31, 2015 compared to $112.2 million in 2014. The increase in the twelve month period was largely due to increases in the Company's proportionate share of Lifeco's earnings as discussed in the Consolidated Financial Position section of this MD&A.

Earnings before interest and taxes related to Investment Planning Counsel were $3.8 million lower in the fourth quarter of 2015 compared to the same period in 2014 and $1.7 million lower in the twelve months ended December 31, 2015 compared with 2014.

Q4 2015 VS. Q3 2015

Net investment income and other totalled $31.0 million in the fourth quarter of 2015 compared to $28.4 million in the third quarter of 2015 primarily due to an increase in the Company's proportionate share of Lifeco's earnings as discussed in the Consolidated Financial Position section of this MD&A.

Earnings before interest and taxes related to Investment Planning Counsel were $1.1 million lower in the fourth quarter of 2015 compared with the previous quarter.

TABLE 16: OPERATING RESULTS - CORPORATE AND OTHER

THREE MONTHS ENDED *($ millions)*	2015 DEC. 31	2015 SEP. 30	2014 DEC. 31	% CHANGE 2015 SEP. 30	% CHANGE 2014 DEC. 31
Revenues					
Fee income	$ 61.7	$ 62.8	$ 57.8	(1.8)%	6.7 %
Net investment income and other	31.0	28.4	30.8	9.2	0.6
	92.7	91.2	88.6	1.6	4.6
Expenses					
Commission	41.4	43.0	39.0	(3.7)	6.2
Non-commission	15.0	13.2	10.2	13.6	47.1
	56.4	56.2	49.2	0.4	14.6
Earnings before interest and taxes	$ 36.3	$ 35.0	$ 39.4	3.7 %	(7.9)%

TWELVE MONTHS ENDED *($ millions)*	2015 DEC. 31	2014 DEC. 31	% CHANGE
Revenues			
Fee income	$ 250.6	$ 230.3	8.8 %
Net investment income and other	119.1	112.2	6.1
	369.7	342.5	7.9
Expenses			
Commission	171.3	156.3	9.6
Non-commission	58.6	52.7	11.2
	229.9	209.0	10.0
Earnings before interest and taxes	$ 139.8	$ 133.5	4.7 %

PART C
IGM FINANCIAL INC.

IGM Financial Inc.
Consolidated Financial Position

IGM Financial's total assets were $14.8 billion at December 31, 2015 compared to $14.4 billion at December 31, 2014.

SECURITIES

The composition of the Company's securities holdings is detailed in Table 17.

Available for Sale Securities

Securities classified as available for sale include investments in proprietary investment funds. Unrealized gains and losses on available for sale securities are recorded in Other comprehensive income until they are realized or until management determines that there is objective evidence of impairment, at which time they are reclassified to the Consolidated Statements of Earnings and any subsequent losses are also recorded in net earnings.

Fair Value Through Profit or Loss Securities

Securities classified as fair value through profit or loss include equity securities and proprietary investment funds. Unrealized gains and losses are recorded in Net investment income and other in the Consolidated Statements of Earnings.

Certain proprietary investment funds are consolidated where the Company has made the assessment that it controls the investment fund as discussed in Note 2 of the Consolidated Financial Statements. The underlying securities of these funds are classified as held for trading and recognized at fair value through profit or loss.

LOANS

The composition of the Company's loans is detailed in Table 18.

Loans consisted of residential mortgages and represented 49.8% of total assets at December 31, 2015, compared to 48.7% at December 31, 2014.

Loans classified as loans and receivables are primarily comprised of residential mortgages sold to securitization programs sponsored by third parties that in turn issue securities to investors. An offsetting liability, Obligations to securitization entities, has been recorded and totalled $7.1 billion at December 31, 2015, compared to $6.8 billion at December 31, 2014.

Loans classified as held for trading are residential mortgages held temporarily by the Company pending sale or securitization.

Residential mortgages originated by Investors Group are funded primarily through sales to third parties on a fully serviced basis, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank sponsored securitization programs. Investors Group services $12.7 billion of residential mortgages, including $2.3 billion originated by subsidiaries of Lifeco.

SECURITIZATION ARRANGEMENTS

Through the Company's mortgage banking operations, residential mortgages originated by Investors Group mortgage planning specialists are sold to securitization trusts sponsored by third parties that in turn issue securities to investors. The Company securitizes

TABLE 17: SECURITIES

	DECEMBER 31, 2015		DECEMBER 31, 2014	
($ millions)	COST	FAIR VALUE	COST	FAIR VALUE
Available for sale				
Proprietary investment funds	$ 6.0	$ 6.1	$ 9.6	$ 10.2
Fair value through profit or loss				
Equity securities	12.2	10.5	11.0	10.2
Proprietary investment funds	33.7	34.2	66.4	69.1
	45.9	44.7	77.4	79.3
	$ 51.9	$ 50.8	$ 87.0	$ 89.5

TABLE 18: LOANS

($ millions)	DECEMBER 31, 2015	DECEMBER 31, 2014
Loans and receivables	$ 7,008.9	$ 6,653.5
Less: Collective allowance	0.7	0.8
	7,008.2	6,652.7
Held for trading	384.2	366.2
	$ 7,392.4	$ 7,018.9

residential mortgages through the CMHC sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) and the Canada Mortgage Bond Program (CMB Program) and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. The Company retains servicing responsibilities and certain elements of credit risk and prepayment risk associated with the transferred assets. The Company's credit risk on its securitized mortgages is mitigated through the use of insurance. Derecognition of financial assets in accordance with IFRS is based on the transfer of risks and rewards of ownership. As the Company has retained prepayment risk and certain elements of credit risk associated with the Company's securitization transactions through the CMB and ABCP programs, they are accounted for as secured borrowings. The Company records the transactions under these programs as follows: (i) the mortgages and related obligations are carried at amortized cost, with interest income and interest expense, utilizing the effective interest rate method, recorded over the term of the mortgages, (ii) the component of swaps entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal, are recorded at fair value, and (iii) cash reserves held under the ABCP program are carried at amortized cost.

In the fourth quarter of 2015, the Company securitized loans through its mortgage banking operations with cash proceeds of $640.8 million compared to $744.6 million in 2014. Additional information related to the Company's securitization activities, including the Company's hedges of related reinvestment and interest rate risk, can be found in the Financial Risk section of this MD&A and in Note 6 of the Consolidated Financial Statements.

INVESTMENT IN AFFILIATE

Investment in affiliate represents the Company's 4% equity interest in Great-West Lifeco Inc. (Lifeco). IGM Financial and Lifeco are controlled by Power Financial Corporation.

The equity method is used to account for IGM Financial's investment in Lifeco, as it exercises significant influence. The Company's proportionate share of Lifeco's earnings is recorded in Net investment income and other in the Corporate and other reportable segment. Changes in the carrying value for the year ended December 31, 2015 compared with 2014 are shown in Table 19.

TABLE 19: INVESTMENT IN AFFILIATE

TWELVE MONTHS ENDED ($ millions)	2015 DEC. 31	2014 DEC. 31
Carrying value, beginning of year	$ 794.4	$ 717.8
Proportionate share of earnings	111.0	96.5
Dividends received	(51.8)	(48.9)
Proportionate share of other comprehensive income (loss) and other adjustments	50.7	29.0
Carrying value, end of year	$ 904.3	$ 794.4
Fair value, end of year	$ 1,371.3	$ 1,334.8

Consolidated Liquidity and Capital Resources

LIQUIDITY

Cash and cash equivalents totalled $983.0 million at December 31, 2015 compared with $1.22 billion at December 31, 2014. Cash and cash equivalents related to the Company's deposit operations were $2.8 million at December 31, 2015, compared to $4.5 million at December 31, 2014, as shown in Table 20.

Working capital totalled $980.3 million at December 31, 2015 compared with $1,196.4 million at December 31, 2014. Working capital excludes the Company's deposit operations.

Working capital is utilized to:

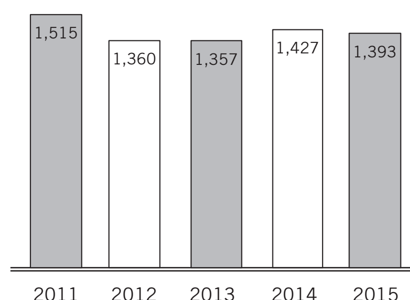
- Finance ongoing operations, including the funding of selling commissions.
- Temporarily finance mortgages in its mortgage banking operations.
- Pay interest and dividends related to long-term debt and preferred shares.
- Maintain liquidity requirements for regulated entities.
- Pay quarterly dividends on its outstanding common shares.
- Finance common share repurchases related to the Company's normal course issuer bid.

IGM Financial continues to generate significant cash flows from its operations. Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) totalled $1,392.6 million for the year ended December 31, 2015 compared to $1,427.2 million in 2014. Adjusted EBITDA for each period under review excludes the impact of amortization of deferred selling commissions which totalled $232.8 million in 2015 compared to $233.4 million in 2014. As well as being an important alternative measure of performance, EBITDA is a common measure utilized by investment analysts and credit rating agencies in reviewing asset management companies.

Refer to the Financial Instruments Risk section of this MD&A for information related to other sources of liquidity and to the Company's exposure to and management of liquidity and funding risk.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA)

For the financial year *($ millions)*



Adjusted EBITDA

2011 excluded earnings on discontinued operations and the proportionate share of the benefit related to the changes in an affiliate's litigation provisions.

2012 excluded the proportionate share of the charge related to the changes in an affiliate's litigation provisions.

2013 excluded a charge related to restructuring and other charges and the proportionate share of the benefit related to the changes in an affiliate's litigation provisions.

2014 excluded a charge related to client distributions and other costs, and restructuring and other charges.

2015 excluded a charge related to restructuring and other charges.

TABLE 20: DEPOSIT OPERATIONS – FINANCIAL POSITION

As at December 31 *($ millions)*	2015	2014
Assets		
Cash and cash equivalents	$ 2.8	$ 4.5
Accounts and other receivables	292.3	204.4
Loans	25.4	25.0
Total assets	$ 320.5	$ 233.9
Liabilities and shareholders' equity		
Deposit liabilities	$ 310.1	$ 223.3
Other liabilities	0.5	0.7
Shareholders' equity	9.9	9.9
Total liabilities and shareholders' equity	$ 320.5	$ 233.9

Cash Flows

Table 21 - Cash Flows is a summary of the Consolidated Statements of Cash Flows which forms part of the Consolidated Financial Statements for the year ended December 31, 2015. Cash and cash equivalents decreased by $233.0 million in 2015 compared to an increase of $133.6 million in 2014.

Operating activities, before payment of commissions, generated $871.6 million during the year ended December 31, 2015, as compared to $996.5 million in 2014. Cash commissions paid were $249.9 million in 2015 compared to $255.6 million in 2014. Cash flows from operating activities, net of commissions paid, were $621.7 million in 2015 as compared to $740.9 million in 2014.

Financing activities during the year ended December 31, 2015 compared to 2014 related to:

- A net increase of $86.7 million in deposits and certificates in 2015 compared to a net increase of $36.9 million in 2014.
- A net increase of $336.0 million in 2015 arising from obligations to securitization entities compared to a net increase of $1,184.6 million in 2014.
- Proceeds received on the issuance of common shares of $14.2 million in 2015 compared with $34.0 million in 2014.
- The purchase of 7,018,500 common shares in 2015 under IGM Financial's normal course issuer bid at a cost of $288.4 million compared with the purchase of 1,587,800 common shares at a cost of $79.5 million in 2014.
- The payment of perpetual preferred share dividends which totalled $8.8 million in 2015, unchanged from 2014.
- The payment of regular common share dividends which totalled $560.1 million in 2015 compared to $542.2 million in 2014.

Investing activities during the year ended December 31, 2015 compared to 2014 primarily related to:

- The purchases of securities totalling $127.9 million and sales of securities with proceeds of $167.4 million in 2015 compared to $87.2 million and $71.7 million, respectively, in 2014.
- A net increase in loans of $360.9 million in 2015 compared to a net increase of $1,160.1 million in 2014 primarily related to residential mortgages in the Company's mortgage banking operations.
- Net cash used in additions to intangible assets and acquisitions were $76.1 million in 2015 compared to $38.7 million in 2014.

CAPITAL RESOURCES

The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. Capital of the Company consists of long-term debt, perpetual preferred shares and common shareholders' equity which totalled $6.2 billion at December 31, 2015, unchanged from December 31, 2014. The Company regularly assesses its capital management practices in response to changing economic conditions.

TABLE 21: CASH FLOWS

TWELVE MONTHS ENDED *($ millions)*	2015 DEC. 31	2014 DEC. 31	% CHANGE
Operating activities			
Before payment of commissions	$ 871.6	$ 996.5	(12.5)%
Commissions paid	(249.9)	(255.6)	2.2
Net of commissions paid	621.7	740.9	(16.1)
Financing activities	(420.4)	625.0	N/M
Investing activities	(434.3)	(1,232.3)	64.8
(Decrease) increase in cash and cash equivalents	(233.0)	133.6	N/M
Cash and cash equivalents, beginning of year	1,216.0	1,082.4	12.3
Cash and cash equivalents, end of year	$ 983.0	$ 1,216.0	(19.2)%

PART C
IGM FINANCIAL INC.

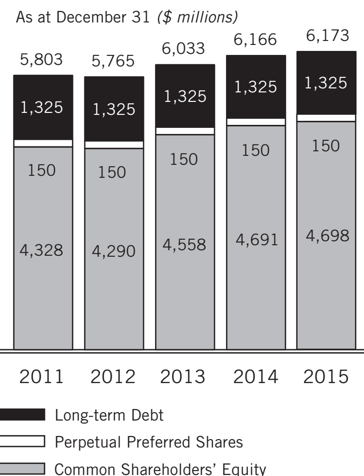
The Company's capital is primarily utilized in its ongoing business operations to support working capital requirements, long-term investments made by the Company, business expansion and other strategic objectives. Subsidiaries subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. These subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. The Company's subsidiaries have complied with all regulatory capital requirements.

The total outstanding long-term debt was $1,325.0 million at December 31, 2015, unchanged from December 31, 2014. Long-term debt is comprised of debentures which are senior unsecured debt obligations of the Company subject to standard covenants, including negative pledges, but which do not include any specified financial or operational covenants.

Perpetual preferred shares of $150 million at December 31, 2015 remain unchanged from December 31, 2014.

The Company purchased 7,018,500 common shares during the year ended December 31, 2015 at a cost of $288.4 million under its normal course issuer bid (refer to Note 16 to the Consolidated Financial Statements). The Company commenced a normal course issuer bid on March 20, 2015 to purchase up to 5% of its common shares in order to mitigate the dilutive effect of stock options issued under the Company's stock option plan and for other capital management purposes. Other activities in 2015 included the declaration of perpetual preferred share dividends of $8.8 million or $1.475 per share and common share dividends of $556.5 million or $2.25 per share. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity.

In connection with its normal course issuer bid, the Company has established an automatic securities purchase plan for its common shares. The automatic securities purchase plan provides standard instructions regarding how IGM Financial's common shares are to be purchased under its normal course issuer bid during certain pre-determined trading blackout periods. Outside of these pre-determined trading blackout periods, purchases under the Company's normal course issuer bid will be completed based upon management's discretion.



The current rating by Standard & Poor's (S&P) of the Company's senior unsecured debentures is "A" with a stable outlook. Dominion Bond Rating Service's (DBRS) current rating on the Company's senior unsecured debentures is "A (High)" with a stable rating trend.

Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a company and are indicators of the likelihood of payment and the capacity of a company to meet its obligations in accordance with the terms of each obligation. Descriptions of the rating categories for each of the agencies set forth below have been obtained from the respective rating agencies' websites.

These ratings are not a recommendation to buy, sell or hold the securities of the Company and do not address market price or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

The A rating assigned to IGM Financial's senior unsecured debentures by S&P is the sixth highest of the 22 ratings used for long-term debt. This rating indicates S&P's view that the Company's capacity to meet its financial commitment on the obligation is strong, but the obligation is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories.

According to S&P, the "Stable" rating outlook means that S&P considers that the rating is unlikely to change over the intermediate term.

The A (High) rating assigned to IGM Financial's senior unsecured debentures by DBRS is the fifth highest of the 26 ratings used for long-term debt. Under the DBRS long-term rating scale, debt securities rated A (High) are of good credit quality and the capacity for the payment of financial obligations is substantial. While this is a favourable rating, entities in the A (High) category may be vulnerable to future events, but qualifying negative factors are considered manageable.

According to DBRS, the "Stable" rating trend helps give investors an understanding of DBRS's opinion regarding the outlook for the rating.

FINANCIAL INSTRUMENTS

Table 22 presents the carrying amounts and fair values of financial assets and financial liabilities. The table excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. These items include cash and cash equivalents, accounts and other receivables, certain other financial assets, accounts payable and accrued liabilities, and certain other financial liabilities.

Fair value is determined using the following methods and assumptions:

- Securities and other financial assets and liabilities are valued using quoted prices from active markets, when available. When a quoted market price is not readily available, valuation techniques are used that require assumptions related to discount rates and the timing and amount of future cash flows. Wherever possible, observable market inputs are used in the valuation techniques.
- Loans classified as held for trading are valued using market interest rates for loans with similar credit risk and maturity.

TABLE 22: FINANCIAL INSTRUMENTS

	DECEMBER 31 2015		DECEMBER 31 2014	
($ millions)	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Financial assets recorded at fair value				
Securities				
– Available for sale	$ 6.1	$ 6.1	$ 10.2	$ 10.2
– Held for trading	44.7	44.7	79.3	79.3
Loans				
– Held for trading	384.2	384.2	366.2	366.2
Derivative financial instruments	58.4	58.4	39.4	39.4
Other financial assets	9.3	9.3	–	–
Financial assets recorded at amortized cost				
Loans				
– Loans and receivables	7,008.2	7,265.9	6,652.7	6,849.3
Financial liabilities recorded at fair value				
Derivative financial instruments	57.8	57.8	29.8	29.8
Other financial liabilities	4.1	4.1	6.6	6.6
Financial liabilities recorded at amortized cost				
Deposits and certificates	310.1	311.8	223.3	225.3
Obligations to securitization entities	7,092.4	7,272.4	6,754.0	6,858.9
Long-term debt	1,325.0	1,661.2	1,325.0	1,682.0

- Loans classified as loans and receivables are valued by discounting the expected future cash flows at prevailing market yields.
- Obligations to securitization entities are valued by discounting the expected future cash flows at prevailing market yields for securities issued by these securitization entities having similar terms and characteristics.
- Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.
- Long-term debt is valued using quoted prices for each debenture available in the market.
- Derivative financial instruments are valued based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

See Note 22 of the Consolidated Financial Statements which provides additional discussion on the determination of fair value of financial instruments.

Although there were changes to both the carrying values and fair values of financial instruments, these changes did not have a material impact on the financial condition of the Company for the twelve months ended December 31, 2015.

Risk Management

The Company is exposed to a variety of risks that are inherent in its business activities. Its ability to manage these risks is key to its ongoing success. The Company emphasizes a strong risk management culture and the implementation of an effective risk management approach. The risk management approach coordinates risk management across the organization and its business units and seeks to ensure prudent and measured risk-taking in order to achieve an appropriate balance between risk and return. Fundamental to our enterprise risk management program is protecting and enhancing our reputation.

RISK MANAGEMENT FRAMEWORK

The Company's risk management approach is undertaken through its Enterprise Risk Management (ERM) Framework which includes five core elements: risk governance, risk appetite, risk principles, a defined risk management process, and risk management culture. The ERM Framework is established under the Company's ERM Policy, which is approved by the Risk Management Committee.

Risk Governance

The Company's risk governance structure emphasizes a comprehensive and consistent framework throughout the Company and its subsidiaries, with identified ownership of risk management in each business unit and oversight by an executive Risk Management Committee accountable to the Executive Committee of the Board. Additional oversight is provided by the Enterprise Risk Management (ERM) Department, corporate and distribution compliance groups, and the Company's Internal Audit Department.

The Board of Directors provides oversight and carries out its risk management mandate primarily through the following committees:

- The Executive Committee is responsible for the oversight of enterprise risk management by: i) ensuring that appropriate procedures are in place to identify and manage risks and establish risk tolerances, ii) ensuring that appropriate policies, procedures and controls are implemented to manage risks, and iii) reviewing the risk management process on a regular basis to ensure that it is functioning effectively.
- The Investment Committee oversees management of the Company's financial risks, being market risk, credit risk, and liquidity and funding risk by: i) ensuring that appropriate procedures are in place to identify and manage financial risks in accordance with tolerances, ii) monitoring the implementation and maintenance of appropriate policies, procedures and controls to manage financial risks, and iii) reviewing the financial risk management process on a regular basis to ensure that it is functioning effectively.
- The Audit Committee has specific risk oversight responsibilities in relation to financial disclosure, internal controls and the control environment as well as the Company's compliance activities.
- Other committees having specific risk oversight responsibilities include: i) the Compensation Committee which oversees compensation policies and practices, ii) the Governance and Nominating Committee which oversees corporate governance practices, and iii) the Related Party and Conduct Review Committee which oversees conflicts of interest as well as the administration of the Code of Business Conduct and Ethics for Directors, Officers and Employees (Code of Conduct).

Management oversight for risk management resides with the executive Risk Management Committee which is comprised of the Co-Presidents and Chief Executive Officers, the Chief Financial Officer, and the General Counsel and Chief Compliance Officer. The committee is responsible for management providing oversight of the Company's risk management process by: i) establishing and maintaining the risk framework and policy, ii) defining the Company's risk appetite, iii) ensuring the Company's risk profile and processes are aligned with corporate strategy and risk appetite, and iv) establishing "tone at the top" and reinforcing a strong culture of risk management.

The Chief Executive Officers of the operating companies have overall responsibility for overseeing risk management of their respective companies.

The Company has assigned responsibility for risk management using the Three Lines of Defence model, with the First Line reflecting the business units having primary responsibility for risk management, supported by Second Line risk management functions and a Third Line Internal Audit function providing assurance and validation of the design and effectiveness of the ERM Framework.

First Line of Defence

The leaders of the various business units and support functions have primary ownership and accountability for the ongoing risk management associated with their respective activities. Responsibilities of business unit and support function leaders include: i) establishing and maintaining procedures for the identification, assessment,

documentation and escalation of risks, ii) implementing control activities to mitigate risks, iii) identifying opportunities for risk reduction or transfer, and iv) aligning business and operational strategies with the risk culture and risk appetite of the organization as established by the Risk Management Committee.

Second Line of Defence

The Enterprise Risk Management (ERM) Department provides oversight, analysis and reporting to the Risk Management Committee on the level of risks relative to the established risk appetite for all activities of the Company. Other responsibilities include: i) developing and maintaining the enterprise risk management program and framework, ii) managing the enterprise risk management process, and iii) providing guidance and training to business unit and support function leaders.

The Company has a number of committees of senior business leaders which provide oversight of specific business risks, including the Financial Risk Management and Information Services Risk Oversight committees. These committees perform critical reviews of risk assessments, risk management practices and risk response plans developed by business units and support functions.

Other oversight accountabilities reside with the Company's corporate and sales compliance groups which are responsible for ensuring compliance with policies, laws and regulations.

Third Line of Defence

The Internal Audit Department is the third line of defence and provides independent assurance to senior management and the Board of Directors on the effectiveness of risk management policies, processes and practices.

Risk Appetite and Risk Principles

The Risk Management Committee establishes the Company's appetite for different types of risk through the Risk Appetite Framework. Under the Risk Appetite Framework, one of four appetite levels is established for each risk type and business activity of the Company. These appetite levels range from those where the Company has no appetite for risk and seeks to minimize any losses, to those where the Company readily accepts exposure while seeking to ensure that risks are well understood and managed. These appetite levels guide our business units as they engage in business activities, and inform them in establishing policies, limits, controls and risk transfer activities.

A Risk Appetite Statement and Risk Principles provide further guidance to business leaders and employees as they conduct risk management activities. The Risk Appetite Statement's emphasis is to maintain the Company's reputation and brand, ensure financial flexibility, and focus on mitigating operational risk.

Risk Management Process

The Company's risk management process is designed to foster:

- Ongoing assessment of risks and tolerance in a changing operating environment.
- Appropriate identification and understanding of existing and emerging risks and risk response.
- Timely monitoring and escalation of risks based upon changing circumstances.

Significant risks that may adversely affect the Company's ability to achieve its strategic and business objectives are identified through the Company's ongoing risk management process.

We use a consistent methodology across our organizations and business units for identification and assessment of risks. Risks are assessed by evaluating the impact and likelihood of the potential risk event after consideration of controls and any risk transfer activities. The results of these assessments are considered relative to risk appetite and tolerances and may result in action plans to adjust the risk profile.

Risk assessments are monitored and reviewed on an ongoing basis by business units and by oversight areas including the ERM Department. The ERM Department promotes and coordinates communication and consultation to support effective risk management and escalation. The ERM Department regularly reports on the results of risk assessments and on the assessment process to the Risk Management Committee and to the Executive Committee of the Board.

Risk Management Culture

Risk management is intended to be everyone's responsibility within the organization. The ERM Department engages all business units in workshops to foster awareness and incorporation of our risk framework into our business activities.

We have an established business planning process which reinforces our risk management culture. Our compensation programs are typically objectives-based, and do not encourage or reward excessive or inappropriate risk taking, and often are aligned specifically with risk management objectives.

Our risk management program emphasizes integrity, ethical practices, responsible management and measured risk-taking with a long-term view. Our standards of integrity and ethics are reflected within our Code of Conduct which applies to directors, officers and employees.

KEY RISKS OF THE BUSINESS

The Company identifies risks to which its businesses and operations could be exposed considering factors both internal and external to the organization. These risks are broadly grouped into six categories.

1) FINANCIAL RISK

Liquidity and Funding Risk

Liquidity and funding risk is the risk of the inability to generate or obtain sufficient cash in a timely and cost-effective manner to meet contractual or anticipated commitments as they come due or arise.

The Company's liquidity management practices include:

- Maintaining liquid assets and lines of credit to satisfy near term liquidity needs.
- Ensuring effective controls over liquidity management processes.
- Performing regular cash forecasts and stress testing.
- Regular assessment of capital market conditions and the Company's ability to access bank and capital market funding.
- Ongoing efforts to diversify and expand long-term mortgage funding sources.
- Oversight of liquidity management by the Financial Risk Management Committee, a committee of finance business leaders, and by the Investment Committee of the Board of Directors.

A key funding requirement for the Company is the funding of commissions paid on the sale of mutual funds. Commissions on the sale of mutual funds continue to be paid from operating cash flows.

The Company also maintains sufficient liquidity to fund and temporarily hold mortgages pending sale or securitization to long-term funding sources. Through its mortgage banking operations, residential mortgages are sold to third parties including certain mutual funds, institutional investors through private placements, Canadian bank-sponsored securitization trusts, and by issuance and sale of National Housing Act Mortgage-Backed Securities (NHA MBS) securities including sales to Canada Housing Trust under the CMB Program. The Company maintains committed capacity within certain Canadian bank-sponsored securitization trusts. Capacity for sales under the CMB Program consists of participation in new CMB issues and reinvestment of principal repayments held in the Principal Reinvestment Accounts. The Company's continued ability to fund residential mortgages through Canadian bank-sponsored securitization trusts and NHA MBS is dependent on securitization market conditions and government regulations that are subject to change. A condition of the NHA MBS and CMB Program is that securitized loans be insured by an insurer that is approved by CMHC. The availability of mortgage insurance is dependent upon market conditions and is subject to change.

As part of ongoing liquidity management during 2015 and 2014, the Company:

- Continued to expand our funding channels by issuing NHA MBS to multiple purchasers.
- Continued to assess additional funding sources for the Company's mortgage banking operations.

PART C
IGM FINANCIAL INC.

TABLE 23: CONTRACTUAL OBLIGATIONS

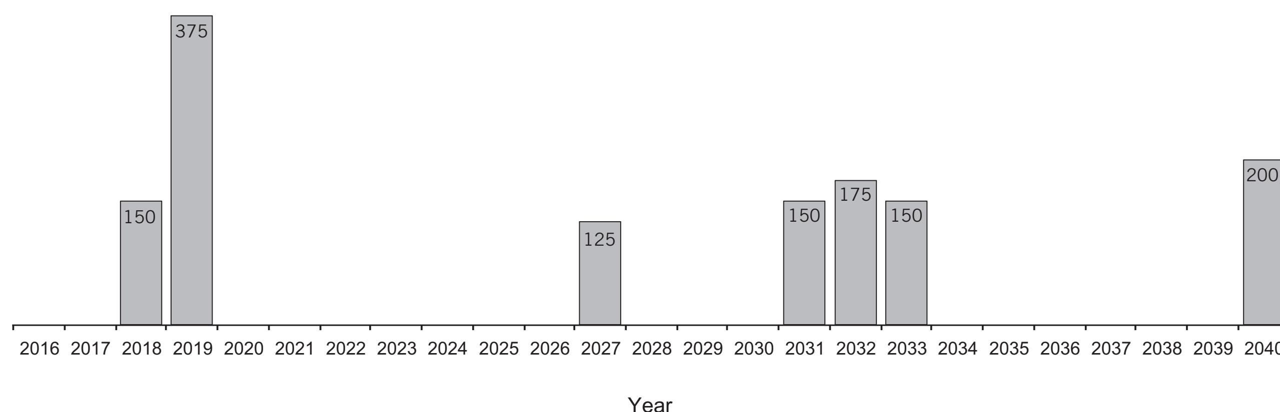
As at December 31, 2015 *($ millions)*	DEMAND	LESS THAN 1 YEAR	1–5 YEARS	AFTER 5 YEARS	TOTAL
Derivative financial instruments	$ –	$ 18.9	$ 38.9	$ –	$ 57.8
Deposits and certificates	291.8	7.0	8.4	2.9	310.1
Obligations to securitization entities	–	1,234.8	5,798.9	58.7	7,092.4
Long-term debt	–	–	525.0	800.0	1,325.0
Operating leases[(1)]	–	26.5	74.7	38.5	139.7
Pension funding[(2)]	–	19.3	–	–	19.3
Total contractual obligations	$ 291.8	$ 1,306.5	$ 6,445.9	$ 900.1	$ 8,944.3

(1) Includes future minimum lease payments related to office space and equipment used in the normal course of business. Lease payments are charged to earnings in the period of use.

(2) The next required actuarial valuation will be completed based on a measurement date of December 31, 2016. Pension funding requirements beyond 2016 are subject to significant variability and will be determined based on future actuarial valuations. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy.

Long-Term Debt Maturity Schedule

($ millions)



The Company's contractual obligations are reflected in Table 23.

The maturity schedule for long-term debt of $1,325 million, with no debt repayment due until 2018, is reflected in the accompanying chart (Long-Term Debt Maturity Schedule).

In addition to IGM Financial's current balance of cash and cash equivalents, liquidity is available through the Company's lines of credit. The Company's lines of credit with various Schedule I Canadian chartered banks totalled $525 million as at December 31, 2015, unchanged from December 31, 2014. The lines of credit as at December 31, 2015 consisted of committed lines of $350 million (2014 - $350 million) and uncommitted lines of $175 million (2014 - $175 million). The Company has accessed its uncommitted lines of credit in the past; however, any advances made by a bank under the uncommitted lines of credit are at the bank's sole discretion. As at December 31, 2015 and December 31, 2014, the Company was not utilizing its committed lines of credit or its uncommitted lines of credit.

The actuarial valuation for funding purposes related to the Company's registered defined benefit pension plan, based on a measurement date of December 31, 2013, was completed in May 2014. Based on the actuarial valuation, the registered pension plan had a solvency deficit of $23.4 million compared to $106.3 million in the previous actuarial valuation, which was based on a measurement date of December 31, 2012. The reduction in solvency deficit resulted primarily from higher interest rates and market returns on the plan assets, and is required to be funded over five years. During 2015, the Company made contributions of $19.6 million (2014 - $19.4 million). The Company expects to make contributions of approximately $19.3 million in 2016. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy. The next required actuarial valuation will be based on a measurement date of December 31, 2016.

Management believes cash flows from operations, available cash balances and other sources of liquidity described above are sufficient to meet the Company's liquidity needs. The Company continues to have the ability to meet its operational cash flow requirements, its contractual obligations, and its declared dividends. The current practice of the Company is to declare and pay dividends to common shareholders on a quarterly basis at the discretion of the Board of Directors. The declaration of dividends by the Board of Directors is dependent on a variety of factors, including earnings which are significantly influenced by the impact that debt and equity market performance has on the Company's fee income and commission and certain other expenses. The Company's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2014.

Credit Risk

Credit risk is the potential for financial loss to the Company if a counterparty to a transaction fails to meet its obligations.

The Company's cash and cash equivalents, securities holdings, mortgage portfolios, and derivatives are subject to credit risk. The Company monitors its credit risk management practices on an ongoing basis to evaluate their effectiveness.

Cash and Cash Equivalents
At December 31, 2015, cash and cash equivalents of $983.0 million (2014 - $1,216.0 million) consisted of cash balances of $105.4 million (2014 - $106.8 million) on deposit with Canadian chartered banks and cash equivalents of $877.6 million (2014 - $1,109.2 million). Cash equivalents are comprised of Government of Canada treasury bills totalling $132.2 million (2014 - $190.8 million), provincial government and government guaranteed commercial paper of $446.6 million (2014 - $665.8 million) and bankers' acceptances issued by Canadian chartered banks of $298.8 million (2014 - $252.6 million).

The Company manages credit risk related to cash and cash equivalents by adhering to its Investment Policy that outlines credit risk parameters and concentration limits. The Company regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

The Company's exposure to and management of credit risk related to cash and cash equivalents and fixed income securities have not changed materially since December 31, 2014.

Mortgage Portfolio
As at December 31, 2015, residential mortgages, recorded on the Company's balance sheet, of $7.4 billion (2014 - $7.0 billion) consisted of $7.0 billion sold to securitization programs (2014 - $6.6 billion), $384.2 million held pending sale or securitization (2014 - $366.2 million) and $27.7 million related to the Company's intermediary operations (2014 - $29.5 million).

The Company manages credit risk related to residential mortgages through:

- Adhering to its lending policy and underwriting standards;
- Its loan servicing capabilities;
- Use of client-insured mortgage default insurance and mortgage portfolio default insurance held by the Company; and
- Its practice of originating its mortgages exclusively through its own network of Mortgage Planning Specialists and Investors Group Consultants as part of a client's comprehensive financial plan.

In certain instances, credit risk is also limited by the terms and nature of securitization transactions as described below:

- Under the NHA MBS program totalling $4.6 billion (2014 - $4.6 billion), the Company is obligated to make timely payment of principal and coupons irrespective of whether such payments were received from the mortgage borrower. However, as required by the NHA MBS program, 100% of the loans are insured by an approved insurer.
- Credit risk for mortgages securitized by transfer to bank-sponsored securitization trusts totalling $2.4 billion (2014 - $2.0 billion) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were $47.7 million (2014 - $35.1 million) and $38.9 million (2014 - $30.0 million), respectively, at December 31, 2015. Cash reserve accounts are reflected on the balance sheet, whereas rights to future net interest income are not reflected on the balance sheet and will be recorded over the life of the mortgages. This risk is further mitigated by insurance with 36.6% of mortgages held in ABCP Trusts insured at December 31, 2015 (2014 - 51.0%).

At December 31, 2015, residential mortgages recorded on balance sheet were 76.8% insured (2014 - 83.7%). As at December 31, 2015, impaired mortgages on these portfolios were $2.9 million, compared to $2.1 million at December 31, 2014. Uninsured non-performing mortgages over 90 days on these portfolios were $1.4 million at December 31, 2015, compared to $0.3 million at December 31, 2014.

The Company also retains certain elements of credit risk on mortgage loans sold to the Investors Mortgage and Short Term Income Fund and to the Investors Canadian Corporate Bond Fund through an agreement to repurchase mortgages in certain circumstances benefiting the funds. These loans are not recorded on the Company's balance sheet as the Company has transferred substantially all of the risks and rewards of ownership associated with these loans.

The Company regularly reviews the credit quality of the mortgages and the adequacy of the collective allowance for credit losses.

The Company's collective allowance for credit losses was $0.7 million at December 31, 2015, compared to $0.8 million at December 31, 2014, and is considered adequate by management to absorb all credit-related losses in the mortgage portfolios based on: i) historical credit performance experience and recent trends, ii) current portfolio credit metrics and other relevant characteristics, and iii) regular stress testing of losses under adverse real estate market conditions.

The Company's exposure to and management of credit risk related to mortgage portfolios have not changed materially since December 31, 2014.

Derivatives

The Company is exposed to credit risk through derivative contracts it utilizes to hedge interest rate risk, to facilitate securitization transactions, and to hedge market risk related to certain stock-based compensation arrangements. These derivatives are discussed more fully under the Market Risk section of this MD&A.

To the extent that the fair value of the derivatives is in a gain position, the Company is exposed to credit risk that its counterparties fail to fulfil their obligations under these arrangements.

The Company's derivative activities are managed in accordance with its Investment Policy which includes counterparty limits and other parameters to manage counterparty risk. The aggregate credit risk exposure related to derivatives that are in a gain position of $58.4 million (2014 - $43.3 million) does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements and including rights to future net interest income, was $1.0 million at December 31, 2015 (2014 - $2.5 million). Counterparties are all Canadian Schedule I chartered banks and, as a result, management has determined that the Company's overall credit risk related to derivatives was not significant at December 31, 2015. Management of credit risk related to derivatives has not changed materially since December 31, 2014.

Additional information related to the Company's securitization activities and utilization of derivative contracts can be found in Notes 2, 6 and 21 to the Consolidated Financial Statements.

Market Risk

Market risk is the potential for loss to the Company from changes in the values of its financial instruments due to changes in foreign exchange rates, interest rates or equity prices. The Company's financial instruments are generally denominated in Canadian dollars and do not have significant exposure to changes in foreign exchange rates.

Interest Rate Risk

The Company is exposed to interest rate risk on its mortgage portfolio and on certain of the derivative financial instruments used in the Company's mortgage banking operations.

The Company manages interest rate risk associated with its mortgage banking operations by entering into interest rate swaps with Canadian Schedule I chartered banks as follows:

- The Company has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. As previously discussed, as part of the CMB Program, the Company is party to a swap whereby it is entitled to receive investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a negative fair value of $47.4 million (2014 - negative $26.3 million) and an outstanding notional amount of $740 million at December 31, 2015 (2014 - $437 million).
  The Company enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages and reinvestment returns decline.
  The fair value of these swaps totalled $54.5 million (2014 - $35.2 million), on an outstanding notional amount of $1.8 billion at December 31, 2015 (2014 - $2.0 billion). The net fair value of these swaps of $7.1 million at December 31, 2015 (2014 - $8.9 million) are recorded on balance sheet and have an outstanding notional amount of $2.6 billion (2014 - $2.4 billion).
- The Company is exposed to the impact that changes in interest rates may have on the value of mortgages committed to or held pending sale or securitization to long-term funding sources. The Company enters into interest rate swaps to hedge the interest rate risk related to funding costs for mortgages held by the Company pending sale or securitization. The negative fair value of these swaps totalled $0.1 million (2014 - negative $0.5 million) on an outstanding notional amount of $88 million at December 31, 2015 (2014 - $101 million).

As at December 31, 2015, the impact to annual net earnings of a 100 basis point increase in interest rates would have been a decrease of approximately $0.7 million (2014 - a decrease of $2.2 million). The Company's exposure to and management of interest rate risk have not changed materially since December 31, 2014.

Equity Price Risk

The Company is exposed to equity price risk on its proprietary investment funds which are classified as available for sale securities and on its equity securities and proprietary investment funds which are classified as fair value through profit or loss. The fair value of the proprietary investment funds and equity security investments was $50.8 million at December 31, 2015 (2014 - $89.5 million), as shown in Table 17.

The Company sponsors a number of deferred compensation arrangements for employees where payments to participants are deferred and linked to the performance of the common shares of IGM Financial Inc. The Company hedges its exposure to this risk through the use of forward agreements and total return swaps.

Risks Related to Assets Under Management

At December 31, 2015, IGM Financial's total assets under management were $133.6 billion compared to $141.9 billion at December 31, 2014.

The Company's primary sources of revenues are management, administration and other fees which are applied as an annual percentage of the level of assets under management. As a result, the level of the Company's revenues and earnings are indirectly exposed to a number of financial risks that affect the value of assets under management on an ongoing basis. These include market risks, like changes in equity prices, interest rates and foreign exchange rates, as well as credit risk on debt securities, loans and credit exposures from other counterparties within our client portfolios.

Changing financial market conditions may also lead to a change in the composition of the Company's assets under management between equity and fixed income instruments, which could result in lower revenues depending upon the management fee rates associated with different asset classes and mandates.

The Company's exposure to the value of assets under management aligns it with the experience of its clients. Assets under management are broadly diversified by asset class, geographic region, industry sector, investment team and style. The Company regularly reviews the sensitivity of its assets under management, revenues, earnings and cash flow to changes in financial markets. The Company believes that over the long term, exposure to investment returns on its client portfolios is beneficial to the Company's results and consistent with stakeholder expectations, and generally it does not engage in risk transfer activities such as hedging in relation to these exposures.

TABLE 24: ASSETS UNDER MANAGEMENT – ASSET AND CURRENCY MIX

	CONSOLIDATED	
As at December 31, 2015	MUTUAL FUNDS	TOTAL
Cash	0.8 %	1.1 %
Short-term fixed income and mortgages	8.2	8.2
Other fixed income	23.6	24.4
Domestic equity	28.5	28.2
Foreign equity	35.6	35.0
Real Property	3.3	3.1
	100.0 %	100.0 %
CAD	62.2 %	62.9 %
USD	24.7	24.3
Other	13.1	12.8
	100.0 %	100.0 %

2) *OPERATIONAL RISK*

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems, human interaction or external events, but excludes business risk.

Operational risk affects all business activities, including the processes in place to manage other risks. As a result, operational risk can be difficult to measure, given that it forms part of other risks of the Company and may not always be separately identified. Our Company is exposed to a broad range of operational risks, including information technology security and system failures, errors relating to transaction processing, financial models and valuations, fraud and misappropriation of assets, and inadequate application of internal control processes. The impact can result in significant financial loss, reputational harm or regulatory actions.

The Company's risk management framework emphasizes operational risk management and internal control. The Company has a very low appetite for risk in this area.

The business unit leaders are responsible for management of the day to day operational risks of their respective business units. Specific programs, policies, training, standards and governance processes have been developed to support the management of operational risk.

Operational risks relating to people and processes are mitigated through policies and process controls. Oversight of risks and ongoing evaluation of the effectiveness of controls is provided by the Company's compliance departments, ERM Department and Internal Audit Department.

Operational risks driven by systems are managed through controls over technology development and change management. Information security is a significant risk to our industry and our Company's operations. The Company uses systems and technology to support its business operations and the client and financial advisor experience. As a result, we are exposed to risks relating to cyber security and the increasing sophistication of cyber attacks in the marketplace. Such an attack could compromise confidential information and that of clients or other stakeholders, and could result in negative consequences including lost revenue, litigation, regulatory scrutiny or reputational damage. The Company continues to monitor and enhance its defences and procedures to prevent, detect, respond to and manage cyber security threats.

The Company has a business continuity management program to support the sustainment, management and recovery of critical operations and processes in the event of a business disruption.

The Company has an insurance review process where it assesses and determines the nature and extent of insurance that is appropriate to provide adequate protection against unexpected losses, and where it is required by law, regulators or contractual agreements.

Model Risk

The Company uses a variety of models to assist in: the valuation of financial instruments, operational scenario testing, management of cash flows, capital management, and assessment of potential acquisitions. These models incorporate internal assumptions, observable market inputs and available market prices. Effective controls exist over the development, implementation and application of these models. However, changes in the internal assumptions or other factors affecting the models could have an adverse effect on the Company's consolidated financial position.

Legal and Regulatory Compliance

Legal and Regulatory Compliance Risk is the risk of not complying with laws, contractual agreements or regulatory requirements. This includes distribution compliance, investment management compliance, accounting and internal controls, and reporting and communications.

IGM Financial is subject to complex and changing legal, taxation and regulatory requirements, including the requirements of agencies of the federal, provincial and territorial governments in Canada which regulate the Company and its activities. The Company and its subsidiaries are also subject to the requirements of self-regulatory organizations to which they belong. These and other regulatory bodies regularly adopt new laws, rules, regulations and policies that apply to the Company and its subsidiaries. These requirements include those that apply to IGM Financial as a publicly traded company and those that apply to the Company's subsidiaries based on the nature of their activities. They include regulations related to securities markets, the provision of financial products and services, including fund management, distribution, insurance and mortgages, and other activities carried on by the Company in the markets in which it operates. Regulatory standards affecting the Company and the financial services industry are significant and are being continually changed. The Company and its subsidiaries

are subject to regulatory reviews as part of the normal ongoing process of oversight by the various regulators.

Failure to comply with laws, rules or regulations could lead to regulatory sanctions and civil liability, and may have an adverse reputational or financial effect on the Company. The Company manages legal and regulatory compliance risk through its efforts to promote a strong culture of compliance. It monitors regulatory developments and their impact on the Company, overseen by the Regulatory Initiatives Committee chaired by the Vice-President, Regulatory Affairs. It also continues to develop and maintain compliance policies, processes and oversight, including specific communications on compliance and legal matters, training, testing, monitoring and reporting. The Audit Committee of the Company receives regular reporting on compliance initiatives and issues.

IGM Financial promotes a strong culture of ethics and integrity through its Code of Conduct approved by the Board of Directors, which outlines standards of conduct that apply to all IGM Financial directors, officers and employees. The Code of Conduct incorporates many policies relating to the conduct of directors, officers and employees, and covers a variety of relevant topics, such as anti-money laundering and privacy. Individuals subject to the Code of Conduct attest annually that they understand the requirements and have complied with its provisions.

Business units are responsible for management of legal and regulatory compliance risk, and implementing appropriate policies, procedures and controls. The Company has a number of different compliance departments responsible for providing oversight of investment management and distribution-related compliance activities. The Internal Audit Department also provides oversight and investigations concerning regulatory compliance matters.

Contingencies

The Company is subject to legal actions arising in the normal course of its business. Although it is difficult to predict the outcome of any such legal actions, based on current knowledge and consultation with legal counsel, management does not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on the Company's consolidated financial position.

3) GOVERNANCE, OVERSIGHT AND STRATEGIC RISK

Governance, oversight and strategic risk is the risk of potential adverse impacts resulting from inadequate or inappropriate governance, oversight, management of incentives and conflicts, and strategic planning.

IGM Financial believes in the importance of good corporate governance and the central role played by directors in the governance process. We believe that sound corporate governance is essential to the well being of the Company and its shareholders.

IGM Financial's activities are carried out principally by three operating companies – Investors Group Inc., Mackenzie Financial Corporation and Investment Planning Counsel Inc. – each of which are managed by a President and Chief Executive Officer. Oversight of the Company is performed by the Board of Directors directly and through its seven committees. The Company has two Co-Presidents and Chief Executive Officers who are responsible for the management of the Company.

The Company has a business planning process that supports development of an annual business plan, approved by the Board of Directors, which incorporates objectives and targets for the Company. Components of management compensation are associated with the achievement of earnings targets and other objectives associated with the plan. Strategic plans and direction are part of this planning process and are integrated into the Company's risk management program.

Acquisition Risk

The Company is also exposed to risks related to its acquisitions. The Company undertakes thorough due diligence prior to completing an acquisition, but there is no assurance that the Company will achieve the expected strategic objectives or cost and revenue synergies subsequent to an acquisition. Subsequent changes in the economic environment and other unanticipated factors may affect the Company's ability to achieve expected earnings growth or expense reductions. The success of an acquisition is dependent on retaining assets under management, clients, and key employees of an acquired company.

4) REGULATORY DEVELOPMENTS

Regulatory development risk is the potential for changes to the regulatory, legal, or tax requirements that may have an adverse impact upon the Company's business activities or financial results.

The Company is exposed to the risk of changes in laws, taxation and regulation that could have an adverse impact on the Company. Particular regulatory initiatives may have the effect of making the products of the Company's subsidiaries appear to be less competitive than the products of other financial service providers, to third party distribution channels and to clients. Regulatory differences that may impact the competitiveness of the Company's products include regulatory costs, tax treatment, disclosure requirements, transaction processes or other differences that may be as a result of differing regulation or application of regulation. Regulatory developments may also impact product structures, pricing, and dealer and advisor compensation. While the Company and its subsidiaries actively monitor such initiatives, and where feasible comment upon or discuss them with regulators, the ability of the Company and its subsidiaries to mitigate the imposition of differential regulatory treatment of financial products or services is limited.

Client Relationship Model and Point of Sale

In March 2013, the Canadian Securities Administrators (CSA) adopted a new set of rules as Phase 2 of the Client Relationship Model (CRM2) that will require dealers, among other things, to provide their clients with enhanced information on the performance of their investments and the costs associated with them, including the compensation paid to the dealer (the Investment Industry Regulatory Organization of Canada and the Mutual Fund Dealers Association of Canada have published rules that are to the same effect). These new requirements are effective for annual periods commencing no later than July 15, 2016 and comprise the following:

- Performance and Rate of Return Reporting – Dealers must provide clients with annual multiple-period performance information, including percentage rate of return results, on each of a client's accounts. The rule mandates use of a dollar-weighted methodology which takes into consideration all cashflows into and out of the account and all underlying funds and investments. This prescribed calculation methodology is one that the Company supports. This approach ensures that client cashflows to, from, and within their accounts are properly reflected in the rate of return calculations. This provides a helpful view of the results of clients' many decisions to save, invest, transfer between different investments and withdraw funds.
- Cost and Compensation Disclosure – Dealers must also provide clients with an annual report on all charges associated with their accounts, including direct and indirect compensation that the dealer receives related to a client's account. These new requirements will provide important information to our clients and will build on already required existing disclosure including information already provided through Fund Facts and the Management Report of Fund Performance (MRFP) related to distribution and fund management costs.

On December 18, 2015, the Mutual Fund Dealers Association of Canada (MFDA) published a consultation bulletin seeking feedback in respect of expanding the cost and compensation disclosure introduced by CRM2 to include other costs of owning investment funds that are not paid to the dealer, such as management fees, operating costs, redemption fees and short term trading fees. This consultation is preliminary in nature and intended to promote further dialogue on the issues raised. The MFDA has not formulated a position in respect of expanding the requirements. The comment period closes on March 10, 2016. The Company will closely monitor this initiative.

Effective May 30, 2016, Fund Facts will be required to be delivered by dealers to clients before accepting an instruction for the purchase of a mutual fund. This concludes the CSA's staged approach to implementation of the point of sale (POS) project for mutual funds.

Mutual Fund Fees and Best Interest Standards

The CSA has been reviewing and conducting research related to Canada's mutual fund fee structures and commissioned two research projects. The Brondesbury Group was retained to evaluate existing literature and determine if the use of fee-based versus commission-based compensation changes the nature of advice and investment outcomes over the long term. Commission-based compensation in this context means arrangements where a mutual fund sales commission is paid on a transaction and where dealer compensation is embedded within the mutual fund management expense ratio and trailer fees based on assets are paid to the dealer by the product manager on an ongoing basis. Fee-based compensation in this context means dealer compensation is paid directly by the client, which often occurs as an

advisory fee charged to the client account and expressed as an annual percentage of client assets. On June 11, 2015, the results of this comprehensive research were made public. One of the key conclusions from the research was: "Evidence on the impact of compensation is conclusive enough to justify the development of new compensation policies. All forms of compensation affect advice and outcomes. There is conclusive evidence that commission-based compensation creates problems that must be addressed. Fee-based compensation is likely a better alternative, but there is not enough evidence to state with certainty that it will lead to better long-term outcomes for investors." The report also identifies gaps in the research and suggests that filling these gaps would improve policy formulation regarding compensation practices. One of the report's observations states: "In our view, no empirical studies have been done to document whether investors have greater after-fee investment returns with fee-based compensation instead of commission-based compensation." The cautions in this report will temper any research-based policy changes considered by the CSA. The Company believes this research, one of the most comprehensive and substantive reviews performed globally on the topic, is a valuable contribution to the discussion surrounding appropriate forms of compensation in the mutual fund and financial services industry. On October 22, 2015, the CSA published the report of the second research project which is an analysis of historical mutual fund data to assess whether fee structures influence mutual fund sales. There are no recommendations contained in the report which, along with the Brondesbury report, will be among the various inputs to be considered by the CSA as part of its review. The CSA has stated that it aims to communicate a policy direction sometime in the first half of 2016.

The CSA also continues to review and consider whether the introduction of a best interest standard when advice is provided to retail clients is required and feasible, and if so, the most efficient way to implement such a standard. The Company anticipates a policy direction to be communicated by March, 2016 in accordance with the CSA Business Plan 2013-2016.

Cooperative Capital Markets Regulatory System

In 2013, the Government of Canada, as part of its Economic Action Plan, indicated an intention to establish a common securities regulator for Canada's capital markets working cooperatively with the provinces and territories. In September 2014, the Government of Canada and participating provincial jurisdictions published two proposed pieces of legislation to implement the cooperative capital markets regulatory system, namely the Provincial Capital Markets Act and the Capital Markets Stability Act.

On August 25, 2015, a revised consultation draft of the Provincial Capital Markets Act (CMA) along with accompanying commentary was published, along with certain proposed initial draft regulations (Regulations). The CMA and Regulations would together constitute the single set of provincial/territorial laws replacing provincial and territorial securities legislation under the proposed cooperative capital markets regulatory system in the six jurisdictions (Ontario, British Columbia, Saskatchewan, New Brunswick, Prince Edward Island and Yukon) which have currently agreed to participate. Consistent with earlier announcements, the Regulations substantially maintain the harmonization achieved so far under the current system of securities laws by adopting the national and multilateral instruments, largely, in their current form. The comment period for the revised CMA and Regulations closed on December 23, 2015. The Company is continuing to monitor this initiative and the potential effect it will have on its activities and those of its subsidiaries, particularly in the area of the regulation of mutual funds.

5) BUSINESS RISK

General Business Conditions

General Business Conditions Risk refers to the potential for an unfavourable impact on IGM Financial resulting from competitive or other external factors relating to the marketplace.

Global economic conditions, changes in equity markets, demographics and other factors including political and government instability, can affect investor confidence, income levels and savings decisions. This could result in reduced sales of IGM Financial's products and services and/or result in investors redeeming their investments. These factors may also affect the level of financial markets and the value of the Company's assets under management, as described more fully under the Risks Related to Assets Under Management section of this MD&A.

The Company, across its operating subsidiaries, is focused on communicating with clients and emphasizing the importance of financial planning across economic cycles. The Company and the industry continue to take steps to educate Canadian investors on the merits of financial planning, diversification and long-term

TABLE 25: TWELVE MONTH TRAILING REDEMPTION RATE FOR LONG-TERM FUNDS

	2015 DEC. 31	2014 DEC. 31
IGM Financial Inc.		
Investors Group	8.7 %	8.7 %
Mackenzie	16.2 %	14.6 %
Counsel	13.6 %	12.6 %

investing. In periods of volatility Consultants and independent financial advisors play a key role in assisting investors in maintaining perspective and focus on their long-term objectives.

Redemption rates for long-term funds are summarized in Table 25 and are discussed in the Investors Group and Mackenzie Segment Operating Results sections of this MD&A.

Product / Service Offering

There is potential for unfavourable impacts on IGM Financial resulting from inadequate product or service performance, quality or breadth.

IGM Financial and its subsidiaries operate in a highly competitive environment, competing with other financial service providers, investment managers and product and service types. Client development and retention can be influenced by a number of factors, including products and services offered by competitors, relative service levels, relative pricing, product attributes, reputation and actions taken by competitors. This competition could have an adverse impact upon the Company's financial position and operating results. Please refer to The Competitive Landscape section of this MD&A for a further discussion.

The Company provides Consultants, independent financial advisors, as well as retail and institutional clients with a high level of service and support and a broad range of investment products, with a focus on building enduring relationships. The Company's subsidiaries also continually review their respective product and service offering, and pricing, to ensure competitiveness in the marketplace.

The Company strives to deliver strong investment performance on its products relative to benchmarks and peers. Poor investment performance relative to benchmarks or peers could reduce the level of assets under management and sales and asset retention, as well as adversely impact our brands. Meaningful and/or sustained underperformance could affect the Company's results. The Company's objective is to cultivate investment processes and disciplines that provide it with a competitive advantage, and does so by diversifying its assets under management and product shelf by investment team, brand, asset class, mandate, style and geographic region.

Business / Client relationships

Business/Client relationships risk refers to the risk potential for unfavourable impacts on IGM Financial resulting from changes to other key relationships. These relationships primarily include Investors Group clients and consultants, Mackenzie retail distribution, strategic and significant business partners, clients of Mackenzie funds, and sub-advisors and other product suppliers.

Investors Group Consultant network – Investors Group derives all of its mutual fund sales through its Consultant network. Investors Group Consultants have regular direct contact with clients which can lead to a strong and personal client relationship based on the client's confidence in that individual Consultant. The market for financial advisors is extremely competitive. The loss of a significant number of key Consultants could lead to the loss of client accounts which could have an adverse effect on Investors Group's results of operations and business prospects. Investors Group is focused on growing its distribution network of Consultants and on responding to the complex financial needs of its clients by delivering a diverse range of products and services in the context of personalized financial advice, as discussed in the Investors Group Review of the Business section of this MD&A.

Mackenzie – Mackenzie derives the majority of its mutual fund sales through third party financial advisors. Financial advisors generally offer their clients investment products in addition to, and in competition with Mackenzie. Mackenzie also derives sales of its investment products and services from its strategic alliance and institutional clients. Due to the nature of the distribution relationship in these relationships and the relative size of these accounts, gross sale and redemption activity can be more pronounced in these accounts than

in a retail relationship. Mackenzie's ability to market its investment products is highly dependent on continued access to these distribution networks. The inability to have such access could have a material adverse effect on Mackenzie's operating results and business prospects. Mackenzie is well positioned to manage this risk and to continue to build and enhance its distribution relationships. Mackenzie's diverse portfolio of financial products and its long-term investment performance record, marketing, educational and service support has made Mackenzie one of Canada's leading investment management companies. These factors are discussed further in the Mackenzie Review of the Business section of this MD&A.

People Risk

People risk refers to the potential inability to attract or retain key employees or Consultants, develop to an appropriate level of proficiency, or manage personnel succession or transition.

Management, investment and distribution personnel play an important role in developing, implementing, managing and distributing products and services offered by IGM Financial. The loss of these individuals or an inability to attract, retain and motivate sufficient numbers of qualified personnel could affect IGM Financial's business and financial performance.

6) ENVIRONMENTAL RISK

Environmental risk is the risk of loss resulting from environmental issues involving our business activities and our operations.

Environmental risk covers a broad spectrum of issues, such as climate change, biodiversity and ecosystem health, pollution, waste and the unsustainable use of water and other resources. Key environmental risks to IGM include:

- Direct risks associated with the ownership and operation of our businesses, which includes management and operation of company-owned or managed assets and business operations;
- Indirect risks as a result of the products and services we offer and our procurement practices;
- Identification and management of emerging environmental regulatory issues; and
- Failure to understand and appropriately leverage environment related trends to meet client demands for products and services.

IGM Financial has a long-standing commitment to responsible management, as articulated in the Company's Corporate Responsibility Statement as approved by the Board of Directors which commits us to responsibly manage our environmental footprint.

Failure to adequately manage environmental risks could adversely impact our results or our reputation.

IGM Financial manages environmental risks across the Company, with business unit management having responsibility for identifying, assessing, controlling and monitoring environmental risks pertaining to their operations. IGM Financial's Executive Management Corporate Responsibility Committee oversees its commitment to environmental responsibility and risk management.

Investors Group and Mackenzie are signatories to the Principles for Responsible Investment (PRI). Under the PRI, investors formally commit to incorporate environmental, social and governance (ESG) issues into their investment processes. In addition, Investors Group, Mackenzie and Investment Planning Counsel have implemented investing policies which provide information on how these ESG issues are implemented at each company.

IGM Financial reports on its environmental management and performance in its Corporate Responsibility Report. In addition, the Company participates in the Carbon Disclosure Project (CDP) survey, which promotes corporate disclosures on greenhouse gas emissions and climate change management.

Outlook

THE FINANCIAL SERVICES ENVIRONMENT

Canadians held $3.6 trillion in discretionary financial assets with financial institutions at December 31, 2014 based on the most recent report from Investor Economics. The nature of holdings was diverse, ranging from demand deposits held for short-term cash management purposes to longer-term investments held for retirement purposes. Over 65% ($2.4 trillion) of these financial assets are held within the context of a relationship with a financial advisor, and this is the primary channel serving the longer-term savings needs of Canadians. Of the $1.2 trillion held outside of a financial advisory relationship, approximately 61% consisted of bank deposits.

Financial advisors represent the primary distribution channel for the Company's products and services, and the core emphasis of the Company's business model is to support these financial advisors as they work with clients to plan for and achieve their financial goals. Multiple sources of emerging research show significantly better financial outcomes for Canadians who use financial advisors compared to those who do not. The Company actively promotes the value of financial advice and the importance of a relationship with an advisor to develop and remain focused on long-term financial plans and goals.

Approximately 40% of Canadian discretionary financial assets or $1.4 trillion resided in investment funds at December 31, 2014, making it the largest financial asset class held by Canadians. Other asset types include deposit products and direct securities such as stocks and bonds. Approximately 77% of investment funds are comprised of mutual fund products, with other product categories including segregated funds, hedge funds, pooled funds, closed end funds and exchange traded funds. With $128 billion in mutual fund assets under management, the Company is among the country's largest investment fund managers. Management believes that investment funds are likely to remain the preferred savings vehicle of Canadians. Investment funds provide investors with the benefits of diversification, professional management, flexibility and convenience, and are available in a broad range of mandates and structures to meet most investor requirements and preferences.

Competition and technology have fostered a trend towards financial service providers offering a comprehensive range of proprietary products and services. Traditional distinctions between bank branches, full service brokerages, financial planning firms and insurance agent sales forces have become obscured as many of these financial service providers strive to offer comprehensive financial advice implemented through access to a broad product shelf. Accordingly, the Canadian financial services industry is characterized by a number of large, diversified, vertically-integrated participants, similar to IGM Financial, who offer both financial planning and investment management services.

Canadian banks distribute financial products and services through their traditional bank branches, as well as through their full service and discount brokerage subsidiaries. Bank branches continue to place increased emphasis on both financial planning and mutual funds. In addition, each of the "big six" banks has one or more mutual fund management subsidiaries. Collectively, mutual fund assets of the "big six" bank-owned mutual fund managers and affiliated firms represented 45% of total industry long-term mutual fund assets at December 31, 2015.

As a result of consolidation activity in the last several years, the Canadian mutual fund management industry is characterized by large, often vertically-integrated, firms. The industry continues to be very concentrated, with the ten largest firms and their subsidiaries representing 73% of industry long-term mutual fund assets and 73% of total mutual fund assets under management at December 31, 2015. Management anticipates continuing consolidation in this segment of the industry as smaller participants are acquired by larger organizations.

Management believes that the financial services industry will continue to be influenced by the following trends:

- Shifting demographics as the number of Canadians in their prime savings and retirement years continue to increase.
- Changes in investor attitudes based on economic conditions.
- Continued importance of the role of the financial advisor.
- Public policy related to retirement savings.
- Changes in the regulatory environment.
- An evolving competitive landscape.
- Advancing and changing technology.

THE COMPETITIVE LANDSCAPE

IGM Financial and its subsidiaries operate in a highly competitive environment. Investors Group and Investment Planning Counsel compete directly with other retail financial service providers, including other financial planning firms, as well as full service brokerages, banks and insurance companies. Investors Group, Mackenzie and Investment Planning Counsel compete directly with other investment managers for assets under management, and their products compete with stocks, bonds and other asset classes for a share of the investment assets of Canadians.

Competition from other financial service providers, alternative product types or delivery channels, and changes in regulations or public preferences could impact the characteristics of product and service offerings of the Company, including pricing, product structures, dealer and advisor compensation and disclosure. The Company monitors developments on an ongoing basis, and engages in policy discussions and develops product and service responses as appropriate.

IGM Financial continues to focus on its commitment to provide quality investment advice and financial products, service innovations, effective management of the Company and long-term value for its clients and shareholders. Management believes that the Company is well-positioned to meet competitive challenges and capitalize on future opportunities.

The Company enjoys several competitive strengths, including:

- Broad and diversified distribution with an emphasis on those channels emphasizing comprehensive financial planning through a relationship with a financial advisor.
- Broad product capabilities, leading brands and quality sub-advisory relationships.
- Enduring client relationships and the long-standing heritages and cultures of its subsidiaries.
- Benefits of being part of the Power Financial group of companies.

Broad and Diversified Distribution

IGM Financial's distribution strength is a competitive advantage. In addition to owning two of Canada's largest financial planning organizations, Investors Group and Investment Planning Counsel, IGM Financial has, through Mackenzie, access to distribution through over 30,000 independent financial advisors. Mackenzie also, in its growing strategic alliance business, partners with Canadian and U.S. manufacturing and distribution complexes to provide investment management to a number of retail investment fund mandates.

Broad Product Capabilities

IGM Financial's subsidiaries continue to develop and launch innovative products and strategic investment planning tools to assist advisors in building optimized portfolios for clients.

Enduring Relationships

IGM Financial enjoys significant advantages as a result of the enduring relationships that advisors enjoy with clients. In addition, the Company's subsidiaries have strong heritages and cultures which are challenging for competitors to replicate.

Benefits of Being Part of the Power Financial Group of Companies

As part of the Power Financial group of companies, IGM Financial benefits through expense savings from shared service arrangements, as well as through access to distribution, products and capital.

Critical Accounting Estimates and Policies

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to exercise judgment in the process of applying accounting policies and requires management to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements and accompanying notes. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the financial services industry; others are specific to IGM Financial's businesses and operations. IGM Financial's significant accounting policies are described in detail in Note 2 of the Consolidated Financial Statements.

Critical accounting estimates relate to the fair value of financial instruments, goodwill and intangibles, income taxes, deferred selling commissions, provisions and employee benefits.

The major critical accounting estimates are summarized below:

- *Fair value of financial instruments* – The Company's financial instruments are carried at fair value, except for loans, deposits and certificates, obligations to securitization entities, and long-term debt which are all carried at amortized cost. The fair value of publicly traded financial instruments is determined using published market prices. The fair value of financial instruments where published market prices are not available, including derivatives related to the Company's securitized loans, are determined using various valuation models which maximize the use of observable market inputs where available. Valuation methodologies and assumptions used in valuation models are reviewed on an ongoing basis. Changes in these assumptions or valuation methodologies could result in significant changes in net earnings.

  Investments in proprietary mutual funds classified as available for sale result in unrealized gains and losses on securities which are recorded in Other comprehensive income until realized or until there is objective evidence of impairment, at which time they are reclassified to the Consolidated Statements of Earnings. Management regularly reviews securities classified as available for sale to assess whether there is objective evidence of impairment. The Company considers such factors as the nature of the investment and the length of time and the extent to which the fair value has been below cost. A significant change in this assessment may result in unrealized losses being recognized in net earnings. During 2015, the Company assessed the measurement of the available for sale securities and determined there was no impairment in the value of these securities.
- *Goodwill and intangible assets* – Goodwill, indefinite life intangible assets, and definite life intangible assets are reflected in Note 10 of the Consolidated Financial Statements. The Company tests the fair value of goodwill and indefinite life intangible assets for impairment at least once a year and more frequently if an event or circumstance indicates the asset may be impaired. An impairment loss is recognized if the amount of the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units). Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

  These tests involve the use of estimates and assumptions appropriate in the circumstances. In assessing the recoverable amounts, valuation approaches are used that include discounted cash flow analysis and application of capitalization multiples to financial and operating metrics based upon precedent acquisition transactions and trading comparables. Assumptions and estimates employed include future changes in assets under management resulting from net sales and investment returns, pricing and profit margin changes, discount rates, and capitalization multiples.

  The Company completed its annual impairment tests of goodwill and indefinite life intangible assets based on March 31, 2015 financial information and determined there was no impairment in the value of those assets.
- *Income taxes* – The provision for income taxes is determined on the basis of the anticipated tax treatment of transactions recorded in the Consolidated Statements of Earnings. The determination of the provision for income taxes requires interpretation of tax legislation in a number of jurisdictions. Tax planning may allow the Company to record lower income taxes in the current year and income taxes recorded in prior years may be adjusted in the current year to reflect management's best estimates of the overall adequacy of its provisions.

Any related tax benefits or changes in management's best estimates are reflected in the provision for income taxes. The recognition of deferred tax assets depends on management's assumption that future earnings will be sufficient to realize the future benefit. The amount of the deferred tax asset or liability recorded is based on management's best estimate of the timing of the realization of the assets or liabilities. If our interpretation of tax legislation differs from that of the tax authorities or if timing of reversals is not as anticipated, the provision for income taxes could increase or decrease in future periods. Additional information related to income taxes is included in the Summary of Consolidated Operating Results in this MD&A and in Note 14 to the Consolidated Financial Statements.

- *Deferred selling commissions* – Commissions paid on the sale of certain mutual fund products are deferred and amortized over a maximum period of seven years. The Company regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by the Company to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value. At December 31, 2015, there were no indications of impairment to deferred selling commissions.
- *Provisions* – A provision is recognized when there is a present obligation as a result of a past transaction or event, it is "probable" that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the obligation. In determining the best estimate for a provision, a single estimate, a weighted average of all possible outcomes, or the midpoint where there is a range of equally possible outcomes are all considered. A significant change in assessment of the likelihood or the best estimate may result in additional adjustments to net earnings.
- *Employee benefits* – The Company maintains a number of employee benefit plans. These plans include a funded registered defined benefit pension plan for all eligible employees, unfunded supplementary executive retirement plans for certain executive officers (SERPs) and an unfunded post-employment health care and life insurance plan for eligible retirees. The funded registered defined benefit pension plan provides pensions based on length of service and final average earnings. The measurement date for the Company's defined benefit pension plan assets and for the accrued benefit obligations on all defined benefit plans is December 31.

  Due to the long-term nature of these plans, the calculation of the accrued benefit liability depends on various assumptions including discount rates, rates of return on assets, the level and types of benefits provided, healthcare cost trend rates, projected salary increases, retirement age, and mortality and termination rates. The discount rate assumption is determined using a yield curve of AA corporate debt securities. All other assumptions are determined by management and reviewed by independent actuaries who calculate the pension and other future benefits expenses and accrued benefit obligations. Actual experience that differs from the actuarial assumptions will result in actuarial gains or losses as well as changes in benefits expense. The Company records actuarial gains and losses on all of its defined benefit plans in Other comprehensive income.

  During 2015, the performance of the defined benefit pension plan assets was positively impacted by market conditions. Corporate bond yields increased in 2015 thereby impacting the discount rate used to measure the Company's accrued benefit liability. The discount rate utilized to value the defined benefit pension plan accrued benefit liability at December 31, 2015 was 4.25% compared to 4.10% at December 31, 2014. Pension plan assets increased to $336.3 million at December 31, 2015 from $310.1 million at December 31, 2014. The increase in plan assets was due to market performance of $14.4 million comprised of interest income of $13.0 million calculated based on the discount rate, which was recorded as a reduction to the pension expense, and actuarial gains of $1.4 million, which were recorded in Other comprehensive income. The assets in the Company's registered defined benefit pension plan also increased due to the Company contributing $19.6 million (2014 - $19.4 million) to the pension plan. The increase in the discount rate utilized to value the defined benefit pension plan obligation resulted in actuarial gains of $9.5 million which were recorded in Other comprehensive income. Demographic assumptions and experience adjustments were revised which resulted in net actuarial losses of $0.9 million. The total defined benefit pension plan obligation was $439.2 million at December 31, 2015 compared to $415.9 million at December 31, 2014. As a result of these changes, the

defined benefit pension plan had an accrued benefit liability of $102.9 million at December 31, 2015 compared to $105.9 million at the end of 2014. The unfunded SERPs and other post-retirement benefits plans had an accrued benefit liability of $56.5 million and $48.8 million, respectively, at December 31, 2015 compared to $54.4 million and $51.0 million in 2014.

A decrease of 0.25% in the discount rate utilized in 2016 would result in a change of $19.2 million in the accrued pension obligation, $17.3 million in other comprehensive income, and $1.9 million in pension expense. Additional information regarding the Company's accounting and sensitivities related to pensions and other post-retirement benefits is included in Notes 2 and 13 of the Consolidated Financial Statements.

CHANGES IN ACCOUNTING POLICIES

There were no changes to the Company's accounting policies from those reported at December 31, 2014.

FUTURE ACCOUNTING CHANGES

The Company continuously monitors the potential changes proposed by the International Accounting Standards Board (IASB) and analyzes the effect that changes in the standards may have on the Company's operations.

IFRS 9 Financial Instruments

The IASB issued IFRS 9 which replaces IAS 39, the current standard for accounting for financial instruments. The standard was completed in three separate phases:

- Classification and measurement: This phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.
- Impairment methodology: This phase replaces the current incurred loss model for impairment of financial assets with an expected loss model.
- Hedge accounting: This phase replaces the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities.

This standard is effective for annual periods beginning on or after January 1, 2018 and the impact of the standard is currently being assessed.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The model requires an entity to recognize revenue as the goods or services are transferred to the customer in an amount that reflects the expected consideration. This standard is effective for annual periods beginning on or after January 1, 2018 and the impact of the standard is currently being assessed.

IFRS 16 Leases

The IASB issued IFRS 16 which requires a lessee to recognize a right-of-use asset representing its right to use the underlying leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. A lessee recognizes the related expense as depreciation on the right-of-use asset and interest on the lease liability. Short-term (less than 12 months) and low-value asset leases are exempt from these requirements. The standard is effective for annual reporting periods beginning on or after January 1, 2019. The impact of this standard is currently being assessed.

Other

The IASB is currently undertaking a number of projects which will result in changes to existing IFRS standards that may affect the Company. Updates will be provided as the projects develop.

Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that (a) material information relating to the Company is made known to the Co-Presidents and Chief Executive Officers and the Chief Financial Officer by others, particularly during the period in which the annual filings are being prepared, and (b) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The Company's management, under the supervision of the Co-Presidents and Chief Executive Officers and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based on their evaluations as of December 31, 2015, the Co-Presidents and Chief Executive Officers and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

Internal Control Over Financial Reporting

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting.

All internal control systems have inherent limitations and may become inadequate because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management, under the supervision of the Co-Presidents and Chief Executive Officers and the Chief Financial Officer, has evaluated the effectiveness of the Company's internal control over financial reporting based on the Internal Control - Integrated Framework (COSO 2013 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission. The Company transitioned to the COSO 2013 Framework during 2014. Based on their evaluations as of December 31, 2015, the Co-Presidents and Chief Executive Officers and the Chief Financial Officer have concluded that the Company's internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

During the fourth quarter of 2015, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Other Information

TRANSACTIONS WITH RELATED PARTIES

IGM Financial enters into transactions with Great-West Life Assurance Company (Great-West), London Life Insurance Company (London Life) and The Canada Life Assurance Company (Canada Life), which are all subsidiaries of its affiliate, Lifeco. These transactions are in the normal course of operations and have been recorded at fair value as described below:

- During 2015 and 2014, the Company provided to and received from Great-West certain administrative services enabling each organization to take advantage of economies of scale and areas of expertise.
- The Company distributes insurance products under a distribution agreement with Great-West and Canada Life and received $70.9 million in distribution fees (2014 - $71.6 million). The Company received $17.5 million (2014 - $18.1 million) and paid $21.2 million (2014 - $18.7 million) to Great-West and related subsidiary companies for the provision of sub-advisory services for certain investment funds. The Company paid $72.0 million (2014 - $67.3 million) to London Life related to the distribution of certain mutual funds of the Company.
- In order to manage its overall liquidity position, the Company's mortgage banking operation is active in the securitization market and also sells residential mortgage loans to third parties, on a fully serviced basis. During 2015, the Company sold residential mortgage loans to Great-West and London Life for $205.6 million compared to $183.6 million in 2014.

The Company entered into tax loss consolidation transactions with its parent company, Power Financial Corporation, after obtaining advance tax rulings:

- On January 7, 2014, the Company acquired $1.67 billion of 4.51% preferred shares of a wholly-owned subsidiary of Power Financial Corporation. As sole consideration for the preferred shares, the Company issued $1.67 billion of 4.50% secured demand debentures to Power Financial Corporation. The Company has legally enforceable rights to settle these financial instruments on a net basis and the Company intends to exercise these rights.
- On January 6, 2015, the Company acquired $0.33 billion of 4.51% preferred shares of a wholly-owned subsidiary of Power Financial Corporation. As sole consideration for the preferred shares, the Company issued $0.33 billion of 4.50% secured demand debentures to Power Financial Corporation. The Company has legally enforceable rights to settle these financial instruments on a net basis and the Company intends to exercise these rights.

The preferred shares and debentures and related dividend income and interest expense are offset in the Consolidated Financial Statements of the Company. Tax savings arise due to the tax deductibility of the interest expense.

For further information on transactions involving related parties, see Notes 8 and 25 to the Company's Consolidated Financial Statements.

OUTSTANDING SHARE DATA

Outstanding common shares of IGM Financial as at December 31, 2015 totalled 244,788,138. Outstanding stock options as at December 31, 2015 totalled 7,441,165, of which 3,526,658 were exercisable. As at February 9, 2016, outstanding common shares totalled 243,138,538 and outstanding stock options totalled 7,427,016, of which 3,515,904 were exercisable.

Perpetual preferred shares of $150 million were outstanding as at December 31, 2015, unchanged at February 9, 2016.

SEDAR

Additional information relating to IGM Financial, including the Company's most recent financial statements and Annual Information Form, is available at www.sedar.com.

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Independent Auditor's Report

To the Shareholders of IGM Financial Inc.

We have audited the accompanying consolidated financial statements of IGM Financial Inc., which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014, and the consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of IGM Financial Inc. as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Signed,
Deloitte LLP

Chartered Accountants
February 12, 2016
Winnipeg, Manitoba

Consolidated Statements of Earnings

For the years ended December 31 *(in thousands of Canadian dollars, except shares and per share amounts)*	2015	2014
Revenues		
Management fees	**$ 2,036,234**	$ 2,014,086
Administration fees	**417,563**	397,235
Distribution fees	**379,558**	351,257
Net investment income and other	**83,640**	68,248
Proportionate share of affiliate's earnings *(Note 8)*	**110,950**	96,458
	3,027,945	2,927,284
Expenses		
Commission	**1,062,069**	992,673
Non–commission *(Note 3)*	**882,969**	877,496
Interest	**92,115**	92,152
	2,037,153	1,962,321
Earnings before income taxes	**990,792**	964,963
Income taxes *(Note 14)*	**210,250**	202,862
Net earnings	**780,542**	762,101
Perpetual preferred share dividends	**8,850**	8,850
Net earnings available to common shareholders	**$ 771,692**	$ 753,251
Average number of common shares *(in thousands) (Note 23)*		
– Basic	**248,173**	252,108
– Diluted	**248,299**	252,778
Earnings per share *(in dollars) (Note 23)*		
– Basic	**$ 3.11**	$ 2.99
– Diluted	**$ 3.11**	$ 2.98

(See accompanying notes to consolidated financial statements.)

Consolidated Statements of Comprehensive Income

For the years ended December 31 *(in thousands of Canadian dollars)*	2015	2014
Net earnings	**$ 780,542**	$ 762,101
Other comprehensive income (loss), net of tax		
Items that will not be reclassified to Net earnings		
Employee benefits		
Net actuarial gains (losses), *net of tax of $(4,304) and $20,312*	**11,636**	(54,917)
Investment in affiliate - employee benefits and other		
Other comprehensive income (loss), *net of tax of nil*	**(4,581)**	(4,598)
Items that may be reclassified subsequently to Net earnings		
Available for sale securities		
Net unrealized gains (losses), *net of tax of $(1,445) and $21*	**3,929**	(58)
Reclassification of realized (gains) losses to net earnings, *net of tax of $534 and $58*	**(1,465)**	(168)
	2,464	(226)
Investment in affiliate and other		
Other comprehensive income (loss), *net of tax of $457 and $885*	**69,205**	31,982
	78,724	(27,759)
Comprehensive income	**$ 859,266**	$ 734,342

(See accompanying notes to consolidated financial statements.)

PART C
IGM FINANCIAL INC.

Consolidated Balance Sheets

(in thousands of Canadian dollars)	DECEMBER 31 2015	DECEMBER 31 2014
Assets		
Cash and cash equivalents	**$ 983,016**	$ 1,215,980
Securities *(Note 4)*	**50,762**	89,545
Accounts and other receivables	**564,660**	470,708
Income taxes recoverable	**10,243**	22,710
Loans *(Note 5)*	**7,392,448**	7,018,893
Derivative financial instruments *(Note 21)*	**58,364**	39,449
Other assets *(Note 7)*	**54,926**	45,757
Investment in affiliate *(Note 8)*	**904,257**	794,381
Capital assets	**140,356**	121,854
Deferred selling commissions *(Note 9)*	**727,527**	710,447
Deferred income taxes *(Note 14)*	**64,946**	69,405
Intangible assets *(Note 10)*	**1,219,720**	1,161,513
Goodwill *(Note 10)*	**2,659,856**	2,656,539
	$ 14,831,081	$ 14,417,181
Liabilities		
Accounts payable and accrued liabilities	**$ 386,727**	$ 374,369
Income taxes payable	**53,267**	30,916
Derivative financial instruments *(Note 21)*	**57,836**	29,788
Deposits and certificates *(Note 11)*	**310,074**	223,328
Other liabilities *(Note 12)*	**449,018**	528,289
Obligations to securitization entities *(Note 6)*	**7,092,414**	6,754,048
Deferred income taxes *(Note 14)*	**308,349**	310,564
Long-term debt *(Note 15)*	**1,325,000**	1,325,000
	9,982,685	9,576,302
Shareholders' Equity		
Share capital		
Perpetual preferred shares	**150,000**	150,000
Common shares	**1,623,948**	1,655,581
Contributed surplus	**35,569**	33,504
Retained earnings	**3,070,873**	3,112,512
Accumulated other comprehensive income (loss)	**(31,994)**	(110,718)
	4,848,396	4,840,879
	$ 14,831,081	$ 14,417,181

(See accompanying notes to consolidated financial statements.)

These financial statements were approved and authorized for issuance by the Board of Directors on February 12, 2016.

Signed,
Murray J. Taylor
Director

Signed,
John McCallum
Director

Consolidated Statements of Changes in Shareholders' Equity

(in thousands of Canadian dollars)	Share Capital: Perpetual Preferred Shares (Note 16)	Share Capital: Common Shares (Note 16)	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (Note 19)	Total Shareholders' Equity
2015						
Balance, beginning of year	**$ 150,000**	**$ 1,655,581**	**$ 33,504**	**$ 3,112,512**	**$ (110,718)**	**$ 4,840,879**
Net earnings	**–**	**–**	**–**	**780,542**	**–**	**780,542**
Other comprehensive income (loss), net of tax	**–**	**–**	**–**	**–**	**78,724**	**78,724**
Comprehensive income	**–**	**–**	**–**	**780,542**	**78,724**	**859,266**
Common shares						
Issued under stock option plan	**–**	**14,908**	**–**	**–**	**–**	**14,908**
Purchased for cancellation	**–**	**(46,541)**	**–**	**–**	**–**	**(46,541)**
Stock options						
Current period expense	**–**	**–**	**4,452**	**–**	**–**	**4,452**
Exercised	**–**	**–**	**(2,387)**	**–**	**–**	**(2,387)**
Perpetual preferred share dividends	**–**	**–**	**–**	**(8,850)**	**–**	**(8,850)**
Common share dividends	**–**	**–**	**–**	**(556,450)**	**–**	**(556,450)**
Common share cancellation excess and other *(Note 16)*	**–**	**–**	**–**	**(256,881)**	**–**	**(256,881)**
Balance, end of year	**$ 150,000**	**$ 1,623,948**	**$ 35,569**	**$ 3,070,873**	**$ (31,994)**	**$ 4,848,396**
2014						
Balance, beginning of year	$ 150,000	$ 1,630,844	$ 32,627	$ 2,977,083	$ (82,959)	$ 4,707,595
Net earnings	–	–	–	762,101	–	762,101
Other comprehensive income (loss), net of tax	–	–	–	–	(27,759)	(27,759)
Comprehensive income	–	–	–	762,101	(27,759)	734,342
Common shares						
Issued under stock option plan	–	35,137	–	–	–	35,137
Purchased for cancellation	–	(10,400)	–	–	–	(10,400)
Stock options						
Current period expense	–	–	5,744	–	–	5,744
Exercised	–	–	(4,867)	–	–	(4,867)
Perpetual preferred share dividends	–	–	–	(8,850)	–	(8,850)
Common share dividends	–	–	–	(548,088)	–	(548,088)
Common share cancellation excess and other *(Note 16)*	–	–	–	(69,734)	–	(69,734)
Balance, end of year	$ 150,000	$ 1,655,581	$ 33,504	$ 3,112,512	$ (110,718)	$ 4,840,879

(See accompanying notes to consolidated financial statements.)

Consolidated Statements of Cash Flows

For the years ended December 31 *(in thousands of Canadian dollars)*	2015	2014
Operating activities		
Earnings before income taxes	**$ 990,792**	$ 964,963
Income taxes paid	**(181,514)**	(170,220)
Adjustments to determine net cash from operating activities		
Deferred selling commission amortization	**232,840**	233,373
Amortization of capital and intangible assets	**39,272**	34,158
Changes in operating assets and liabilities and other	**(209,709)**	(65,743)
	871,681	996,531
Deferred selling commissions paid	**(249,920)**	(255,590)
	621,761	740,941
Financing activities		
Net increase in deposits and certificates	**86,746**	36,908
Net increase in obligations to securitization entities	**335,983**	1,184,643
Issue of common shares	**14,231**	34,015
Common shares purchased for cancellation	**(288,367)**	(79,500)
Perpetual preferred share dividends paid	**(8,850)**	(8,850)
Common share dividends paid	**(560,147)**	(542,250)
	(420,404)	624,966
Investing activities		
Purchase of securities	**(127,947)**	(87,195)
Proceeds from the sale of securities	**167,446**	71,664
Net increase in loans	**(360,875)**	(1,160,100)
Net additions to capital assets	**(36,814)**	(18,011)
Net cash used in additions to intangible assets and acquisitions	**(76,131)**	(38,722)
	(434,321)	(1,232,364)
(Decrease) increase in cash and cash equivalents	**(232,964)**	133,543
Cash and cash equivalents, beginning of year	**1,215,980**	1,082,437
Cash and cash equivalents, end of year	**$ 983,016**	$ 1,215,980
Cash	**$ 105,447**	$ 106,828
Cash equivalents	**877,569**	1,109,152
	$ 983,016	$ 1,215,980
Supplemental disclosure of cash flow information related to operating activities		
Interest and dividends received	**$ 250,602**	$ 238,344
Interest paid	**$ 221,308**	$ 218,452

(See accompanying notes to consolidated financial statements.)

1. CORPORATE INFORMATION

IGM Financial Inc. (the Company) is a publicly listed company (TSX: IGM), incorporated and domiciled in Canada. The registered address of the Company is 447 Portage Avenue, Winnipeg, Manitoba, Canada. The Company is controlled by Power Financial Corporation.

IGM Financial Inc. is a financial services company which serves the financial needs of Canadians through its principal subsidiaries, each operating distinctly within the advice segment of the financial services market. The Company's wholly-owned principal subsidiaries are Investors Group Inc. and Mackenzie Financial Corporation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS). The policies set out below were consistently applied to all the periods presented unless otherwise noted.

Use of judgment, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to exercise judgment in the process of applying accounting policies and requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements. The key areas where judgment has been applied include: the determination of which financial assets should be derecognized; the assessment of the appropriate classification of financial instruments, including those classified as fair value through profit or loss; and the assessment that significant influence exists for its investment in affiliate. Key components of the financial statements requiring management to make estimates include: the fair value of financial instruments, goodwill, intangible assets, income taxes, deferred selling commissions, provisions and employee benefits. Actual results may differ from such estimates. Further detail of judgments and estimates are found in the remainder of Note 2 and in Notes 6, 8, 10, 12, 13, 14 and 22.

Basis of consolidation

The Consolidated Financial Statements include the accounts of the Company and all subsidiaries on a consolidated basis after elimination of intercompany transactions and balances. Subsidiaries are entities the Company controls when it is exposed, or has rights, to variable returns from its involvement and has the ability to affect those returns through its power to direct the relevant activities of the entity.

The Company's investment in Great-West Lifeco Inc. (Lifeco) is accounted for using the equity method. The investment in Lifeco was initially recorded at cost and the carrying amount is increased or decreased to recognize the Company's share of Lifeco's comprehensive income and the dividends received since the date of acquisition.

Revenue recognition

Management fees are based on the net asset value of investment fund or other assets under management and are recognized on an accrual basis as the service is performed. Administration fees are also recognized on an accrual basis as the service is performed. Distribution fees derived from investment fund and securities transactions are recognized on a trade date basis. Distribution fees derived from insurance and other financial services transactions are recognized on an accrual basis.

Financial instruments

All financial assets are classified in one of the following categories: available for sale, fair value through profit or loss, or loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets upon initial recognition. Financial assets at fair value through profit or loss are financial assets classified as held for trading or upon initial recognition are designated by the Company as fair value through profit or loss. Financial assets are classified as held for trading if acquired with the intent to sell in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedging instruments. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Available for sale financial assets are non-derivative financial instruments that are either designated in this category or not classified in any of the other categories.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

All financial assets are carried at fair value in the Consolidated Balance Sheets, except loans and receivables which are carried at amortized cost using the effective interest method. Financial liabilities are classified either as financial liabilities measured at amortized cost using the effective interest method or as fair value through profit or loss, which are carried at fair value.

Unrealized gains and losses on financial assets classified as available for sale as well as other comprehensive income amounts, including unrealized foreign currency translation gains and losses related to the Company's investment in its affiliate, are recorded in the Consolidated Statements of Comprehensive Income on a net of tax basis. Accumulated other comprehensive income forms part of Shareholders' equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash and temporary investments consisting of highly liquid investments with short-term maturities. Interest income is recorded on an accrual basis in Net investment income and other in the Consolidated Statements of Earnings.

Securities

Securities, which are recorded on a trade date basis, are classified as either available for sale or fair value through profit or loss.

Available for sale securities comprise equity securities held for long-term investment, investments in proprietary investment funds and fixed income securities. Realized gains and losses on disposal of available for sale securities, dividends declared, interest income, as well as the amortization of discounts or premiums using the effective interest method, are recorded in Net investment income and other in the Consolidated Statements of Earnings. Unrealized gains and losses on available for sale securities are recorded in Other comprehensive income until they are realized or until management determines that there is objective evidence of impairment in value, at which time they are reclassified to the Consolidated Statements of Earnings.

Fair value through profit or loss securities are held for trading and are comprised of fixed income and equity securities and investments in proprietary investment funds. Unrealized and realized gains and losses, dividends declared, and interest income on these securities are recorded in Net investment income and other in the Consolidated Statements of Earnings.

Loans

Loans are classified as either held for trading or loans and receivables, based on the Company's intent to sell the loans in the near term.

Loans classified as held for trading are recorded at fair value, with changes in fair value recorded in Net investment income and other in the Consolidated Statements of Earnings. Loans classified as loans and receivables are carried at amortized cost less an allowance for credit losses. Interest income is accounted for on the accrual basis using the effective interest method for all loans and is recorded in Net investment income and other in the Consolidated Statements of Earnings.

A loan is classified as impaired when, in the opinion of management, there no longer is reasonable assurance of the timely collection of the full amount of principal and interest. A loan is also classified as impaired when interest or principal is contractually past due 90 days, except in circumstances where management has determined that the collectibility of principal and interest is not in doubt.

The Company maintains an allowance for credit losses which is considered adequate by management to absorb all credit related losses in its portfolio. Specific allowances are established as a result of reviews of individual loans. There is a second category of allowance, the collective allowance, which is allocated against sectors rather than specifically against individual loans. This allowance is established where a prudent assessment by management suggests that losses have occurred but where such losses cannot yet be identified on an individual loan basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition

The Company enters into transactions where it transfers financial assets recognized on its balance sheet. The determination of whether the financial assets are derecognized is based on the extent to which the risks and rewards of ownership are transferred. The gains or losses and the servicing fee revenue for financial assets that are derecognized are reported in Net investment income and other in the Consolidated Statements of Earnings. The transactions for financial assets that are not derecognized are accounted for as secured financing transactions.

Deferred selling commissions

Commissions paid on the sale of certain investment funds are deferred and amortized over their estimated useful lives, not exceeding a period of seven years. Commissions paid on the sale of deposits are deferred and amortized over their estimated useful lives, not exceeding a period of five years. When a client redeems units or shares in investment funds that are subject to a deferred sales charge, a redemption fee is paid by the client and is recorded as revenue by the Company. Any unamortized deferred selling commission asset recognized on the initial sale of these investment fund units or shares is recorded as a disposal. The Company regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by the Company to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value.

Capital assets

Capital assets are recorded at cost of $357.9 million at December 31, 2015 (2014 - $321.9 million), less accumulated amortization of $217.5 million (2014 - $200.0 million). Buildings, furnishings and equipment are amortized on a straight-line basis over their estimated useful lives, which range from 3 to 17 years for equipment and furnishings and 10 to 50 years for the building and its components. Capital assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill and intangible assets

The Company tests the carrying value of goodwill and indefinite life intangible assets for impairment at least once a year and more frequently if an event or circumstance indicates the asset may be impaired. An impairment loss is recognized if the amount of the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal or its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units).

Investment fund management contracts have been assessed to have an indefinite useful life as the contractual right to manage the assets has no fixed term.

Trade names have been assessed to have an indefinite useful life as they contribute to the revenues of the Company's integrated asset management business as a whole and the Company intends to utilize them for the foreseeable future.

Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives, not exceeding a period of 20 years. Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Employee benefits

The Company maintains a number of employee benefit plans including defined benefit plans and defined contribution pension plans for eligible employees. These plans are related parties in accordance with IFRS. The Company's defined benefit plans include a funded defined benefit pension plan for eligible employees, unfunded supplementary executive retirement plans (SERP) for certain executive officers, and an unfunded post-employment health care, dental and life insurance plan for eligible retirees.

The defined benefit pension plan provides pensions based on length of service and final average earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

The cost of the defined benefit plans is actuarially determined using the projected unit credit method prorated on service based upon management's assumptions about discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. Any changes in these assumptions will impact the carrying amount of pension obligations. The Company's accrued benefit liability in respect of defined benefit plans is calculated separately for each plan by discounting the amount of the benefit that employees have earned in return for their service in current and prior periods and deducting the fair value of any plan assets. The Company determines the net interest component of the pension expense for the period by applying the discount rate used to measure the accrued benefit liability at the beginning of the annual period to the net accrued benefit liability. The discount rate used to value liabilities is determined using a yield curve of AA corporate debt securities.

If the plan benefits are changed, or a plan is curtailed, any past service costs or curtailment gains or losses are recognized immediately in net earnings.

Current service costs, past service costs and curtailment gains or losses are included in Non-commission expenses.

Remeasurements arising from defined benefit plans represent actuarial gains and losses and the actual return on plan assets, less interest calculated at the discount rate. Remeasurements are recognized immediately through Other comprehensive income (OCI) and are not reclassified to net earnings.

The accrued benefit liability represents the deficit related to defined benefit plans and is included in Other liabilities.

Payments to the defined contribution pension plans are expensed as incurred.

Share-based payments

The Company uses the fair value based method to account for stock options granted to employees. The fair value of stock options is determined on each grant date. Compensation expense is recognized over the period that the stock options vest, with a corresponding increase in Contributed surplus. When stock options are exercised, the proceeds together with the amount recorded in Contributed surplus are added to Share capital.

The Company recognizes a liability for cash settled awards including those granted under the Performance Share Unit plan and the Deferred Share Unit plan. Compensation expense is recognized over the vesting period, net of related hedges. The liability is remeasured at fair value at each reporting period.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present obligation where a reliable estimate can be made, and it is probable that an outflow of resources will be required to settle the obligation.

Income taxes

The Company uses the liability method in accounting for income taxes whereby deferred income tax assets and liabilities reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases and tax loss carryforwards. Deferred income tax assets and liabilities are measured based on the enacted or substantively enacted tax rates which are anticipated to be in effect when the temporary differences are expected to reverse.

Earnings per share

Basic earnings per share is determined by dividing Net earnings available to common shareholders by the average number of common shares outstanding for the year. Diluted earnings per share is determined using the same method as basic earnings per share except that the average number of common shares outstanding includes the potential dilutive effect of outstanding stock options granted by the Company as determined by the treasury stock method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments

Derivative financial instruments are utilized by the Company in the management of equity price and interest rate risks. The Company does not utilize derivative financial instruments for speculative purposes.

The Company formally documents all hedging relationships, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the Consolidated Balance Sheets or to anticipated future transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Derivative financial instruments are recorded at fair value in the Consolidated Balance Sheets.

Derivative financial instruments specifically designated as a hedge and meeting the criteria for hedge effectiveness offset the changes in fair values or cash flows of hedged items. A hedge is designated either as a cash flow hedge or a fair value hedge. A cash flow hedge requires the change in fair value of the derivative, to the extent effective, to be recorded in Other comprehensive income, which is reclassified to the Consolidated Statements of Earnings when the hedged item affects earnings. The change in fair value of the ineffective portion of the derivative in a cash flow hedge is recorded in the Consolidated Statements of Earnings. A fair value hedge requires the change in fair value of the hedging derivative and the change in fair value of the hedged item relating to the hedged risk to both be recorded in the Consolidated Statements of Earnings.

The Company enters into interest rate swaps as part of its mortgage banking and intermediary operations. These swap agreements require the periodic exchange of net interest payments without the exchange of the notional principal amount on which the payments are based. These instruments are not designated as hedging instruments. Changes in fair value are recorded in Net investment income and other in the Consolidated Statements of Earnings.

The Company also enters into total return swaps and forward agreements to manage its exposure to fluctuations in the total return of its common shares related to deferred compensation arrangements. Total return swap and forward agreements require the exchange of net contractual payments periodically or at maturity without the exchange of the notional principal amounts on which the payments are based. Certain of these derivatives are not designated as hedging instruments and changes in fair value are recorded in Non-commission expense in the Consolidated Statements of Earnings.

Derivatives continue to be utilized on a basis consistent with the risk management policies of the Company and are monitored by the Company for effectiveness as economic hedges even if specific hedge accounting requirements are not met.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented on the Consolidated Balance Sheets when the Company has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Future accounting changes

The Company continuously monitors the potential changes proposed by the International Accounting Standards Board (IASB) and analyzes the effect that changes in the standards may have on the Company's operations.

IFRS 9 Financial Instruments

The IASB issued IFRS 9 which replaces IAS 39, the current standard for accounting for financial instruments. The standard was completed in three separate phases:

- Classification and measurement: This phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.
- Impairment methodology: This phase replaces the current incurred loss model for impairment of financial assets with an expected loss model.
- Hedge accounting: This phase replaces the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities.

This standard is effective for annual periods beginning on or after January 1, 2018 and the impact of the standard is currently being assessed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Future accounting changes *(continued)*

IFRS 15 Revenue from Contracts with Customers
The IASB issued IFRS 15 which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The model requires an entity to recognize revenue as the goods or services are transferred to the customer in an amount that reflects the expected consideration. This standard is effective for annual reporting periods beginning on or after January 1, 2018 and the impact of the standard is currently being assessed.

IFRS 16 Leases
The IASB issued IFRS 16 which requires a lessee to recognize a right-of-use asset representing its right to use the underlying leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. A lessee recognizes the related expense as depreciation on the right-of-use asset and interest on the lease liability. Short-term (less than 12 months) and low-value asset leases are exempt from these requirements. The standard is effective for annual reporting periods beginning on or after January 1, 2019. The impact of this standard is currently being assessed.

3. NON-COMMISSION EXPENSE

	2015	2014
Salaries and employee benefits	**$ 408,870**	$ 375,420
Client distributions and other costs *(Note 12)*	-	80,968
Occupancy	**55,831**	56,770
Amortization of capital and intangible assets	**39,272**	34,158
Other	**378,996**	330,180
	$ 882,969	$ 877,496

4. SECURITIES

	2015		2014	
	COST	FAIR VALUE	COST	FAIR VALUE
Available for sale:				
Proprietary investment funds	**$ 5,941**	**$ 6,092**	$ 9,614	$ 10,220
Fair value through profit or loss:				
Equity securities	**12,220**	**10,462**	11,009	10,233
Proprietary investment funds	**33,710**	**34,208**	66,385	69,092
	45,930	**44,670**	77,394	79,325
	$ 51,871	**$ 50,762**	$ 87,008	$ 89,545

Available for sale

Proprietary investment funds
The Company manages and provides services and earns management and administration fees, in respect of investment funds that are not recognized in the Consolidated Balance Sheets. As at December 31, 2015, there were $127.5 billion in investment fund assets under management (2014 - $126.0 billion). The Company's investments in proprietary investment funds are included on the Company's Consolidated Balance Sheets as available for sale securities. These investments are generally made in the process of launching a new fund and are sold as third party investors subscribe. This balance represents the Company's maximum exposure to loss associated with these investments.

4. SECURITIES *(continued)*

Fair value through profit or loss

Proprietary investment funds

Certain investment funds are consolidated where the Company has made the assessment that it controls the investment fund. As at December 31, 2015, the underlying investments related to these consolidated investment funds primarily consisted of cash and short-term investments of $6.0 million (2014 - $8.8 million), equity securities of $23.3 million (2014 - $30.2 million) and fixed income securities of $5.6 million (2014 - $30.0 million). The underlying securities of these funds are classified as held for trading and recognized at fair value.

5. LOANS

	CONTRACTUAL MATURITY				
	1 YEAR OR LESS	1 - 5 YEARS	OVER 5 YEARS	2015 TOTAL	2014 TOTAL
Loans and receivables					
Residential mortgages	**$ 1,164,599**	**$ 5,841,619**	**$ 2,718**	**$ 7,008,936**	$ 6,653,428
Less: Collective allowance				**705**	762
				7,008,231	6,652,666
Held for trading				**384,217**	366,227
				$ 7,392,448	$ 7,018,893

The change in the collective allowance for credit losses is as follows:	2015	2014
Balance, beginning of year	**$ 762**	$ 728
Write-offs, net of recoveries	**(132)**	(236)
Provision for credit losses	**75**	270
Balance, end of year	**$ 705**	$ 762

Total impaired loans as at December 31, 2015 were $2,902 (2014 - $2,056).

Total interest income on loans classified as loans and receivables was $189.2 million (2014 - $179.1 million). Total interest expense on obligations to securitization entities, related to securitized loans, was $132.1 million (2014 - $130.2 million). Gains realized on the sale of residential mortgages totalled $20.7 million (2014 - $14.8 million). Fair value adjustments related to mortgage banking operations totalled $(1.3) million (2014 - $0.2 million). These amounts were included in Net investment income and other. Net investment income and other also includes other mortgage banking related items including interest income on mortgages held for trading, portfolio insurance, issue costs, and other items.

6. SECURITIZATIONS

The Company securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC) sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) Program and Canada Mortgage Bond (CMB) Program and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. These transactions do not meet the requirements for derecognition as the Company retains prepayment risk and certain elements of credit risk. Accordingly, the Company has retained these mortgages on its balance sheets and has recorded offsetting liabilities for the net proceeds received as Obligations to securitization entities which are carried at amortized cost.

The Company earns interest on the mortgages and pays interest on the obligations to securitization entities. As part of the CMB transactions, the Company enters into a swap transaction whereby the Company pays coupons on CMBs and receives investment returns on the NHA MBS and the reinvestment of repaid mortgage principal. A component of this swap, related to the obligation to pay CMB coupons and receive investment returns on repaid mortgage principal, is recorded as a derivative and had a negative fair value of $47.4 million at December 31, 2015 (2014 - negative $26.3 million).

Under the NHA MBS and CMB Program, the Company has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages securitized under the NHA MBS and CMB Program are insured by CMHC or another approved insurer under the program. As part of the ABCP transactions, the Company has provided cash reserves for credit enhancement which are carried at cost. Credit risk is limited to these cash reserves and future net interest income as the ABCP Trusts have no recourse to the Company's other assets for failure to make payments when due. Credit risk is further limited to the extent these mortgages are insured.

	SECURITIZED MORTGAGES	OBLIGATIONS TO SECURITIZATION ENTITIES	NET
2015			
Carrying value			
NHA MBS and CMB Program	**$ 4,611,583**	**$ 4,669,974**	**$ (58,391)**
Bank sponsored ABCP	**2,369,681**	**2,422,440**	**(52,759)**
Total	**$ 6,981,264**	**$ 7,092,414**	**$ (111,150)**
Fair value	**$ 7,238,046**	**$ 7,272,394**	**$ (34,348)**
2014			
Carrying value			
NHA MBS and CMB Program	$ 4,611,253	$ 4,691,792	$ (80,539)
Bank sponsored ABCP	2,012,702	2,062,256	(49,554)
Total	$ 6,623,955	$ 6,754,048	$ (130,093)
Fair value	$ 6,819,531	$ 6,858,924	$ (39,393)

The carrying value of Obligations to securitization entities, which is recorded net of issue costs, includes principal payments received on securitized mortgages that are not due to be settled until after the reporting period. Issue costs are amortized over the life of the obligation on an effective interest rate basis.

7. OTHER ASSETS

		2015		2014
Deferred and prepaid expenses	**$**	**43,224**	$	39,635
Other		**11,702**		6,122
	$	**54,926**	$	45,757

Total other assets of $20.9 million as at December 31, 2015 (2014 - $18.4 million) are expected to be realized within one year.

8. INVESTMENT IN AFFILIATE

Investment in affiliate represents the Company's investment in Lifeco. Lifeco is a publicly listed company that is incorporated and domiciled in Canada and is controlled by Power Financial Corporation. Lifeco is a financial services holding company with interests in the life insurance, health insurance, retirement savings, investment management and reinsurance businesses, primarily in Canada, the United States, Europe and Asia.

At December 31, 2015, the Company held 39,737,388 (2014 - 39,737,388) shares of Lifeco, which represented an equity interest of 4.0% (2014 - 4.0%). The Company uses the equity method to account for its investment in Lifeco as it exercises significant influence. Significant influence arises from several factors, including but not limited to, the following: common control of Lifeco by Power Financial Corporation, directors common to the boards of the Company and Lifeco, certain shared strategic alliances, significant intercompany transactions and service agreements that influence the financial and operating policies of both companies. The Company's proportionate share of Lifeco's earnings is recorded in the Consolidated Statements of Earnings.

		2015		2014
Balance, beginning of year	**$**	**794,381**	$	717,775
Proportionate share of earnings		**110,950**		96,458
Dividends received		**(51,818)**		(48,877)
Proportionate share of other comprehensive income (loss) and other adjustments		**50,744**		29,025
Balance, end of year	**$**	**904,257**	$	794,381
Share of equity, end of year	**$**	**776,386**	$	663,018
Fair value, end of year	**$**	**1,371,337**	$	1,334,779

Lifeco directly owned 9,200,000 shares of the Company at December 31, 2015.

Lifeco's financial information as at December 31, 2015 can be obtained in its publicly available information.

PART C
IGM FINANCIAL INC.

9. DEFERRED SELLING COMMISSIONS

	2015	2014
Cost	**$ 1,356,177**	$ 1,346,530
Less: accumulated amortization	**(628,650)**	(636,083)
	$ 727,527	$ 710,447
Changes in deferred selling commissions:		
Balance, beginning of year	**$ 710,447**	$ 688,230
Changes due to:		
Sales of investment funds	**249,920**	255,590
Amortization	**(232,840)**	(233,373)
	17,080	22,217
Balance, end of year	**$ 727,527**	$ 710,447

Amortization of deferred selling commissions includes $30.3 million (2014 - $30.0 million) of disposals related to redemption activity and is recorded in Commission expense in the Consolidated Statements of Earnings.

10. GOODWILL AND INTANGIBLE ASSETS

The components of goodwill and intangible assets are as follows:

	FINITE LIFE		INDEFINITE LIFE			
	SOFTWARE	DISTRIBUTION AND OTHER MANAGEMENT CONTRACTS	MUTUAL FUND MANAGEMENT CONTRACTS	TRADE NAMES	TOTAL INTANGIBLE ASSETS	GOODWILL
2015						
Cost	**$ 225,617**	**$ 112,278**	**$ 740,559**	**$ 285,177**	**$1,363,631**	**$2,659,856**
Less: accumulated amortization	**(81,264)**	**(62,647)**	**–**	**–**	**(143,911)**	**–**
	$ 144,353	**$ 49,631**	**$ 740,559**	**$ 285,177**	**$1,219,720**	**$2,659,856**
Changes in goodwill and intangible assets:						
Balance, beginning of year	**$ 80,167**	**$ 55,610**	**$ 740,559**	**$ 285,177**	**$1,161,513**	**$2,656,539**
Additions	**72,321**	**1,743**	**–**	**–**	**74,064**	**3,317**
Disposals	**–**	**(589)**	**–**	**–**	**(589)**	**–**
Amortization	**(8,135)**	**(7,133)**	**–**	**–**	**(15,268)**	**–**
Balance, end of year	**$ 144,353**	**$ 49,631**	**$ 740,559**	**$ 285,177**	**$1,219,720**	**$2,659,856**
2014						
Cost	$ 153,296	$ 111,124	$ 740,559	$ 285,177	$ 1,290,156	$ 2,656,539
Less: accumulated amortization	(73,129)	(55,514)	–	–	(128,643)	–
	$ 80,167	$ 55,610	$ 740,559	$ 285,177	$ 1,161,513	$ 2,656,539
Changes in goodwill and intangible assets:						
Balance, beginning of year	$ 48,818	$ 62,296	$ 740,559	$ 285,177	$ 1,136,850	$ 2,655,859
Additions	37,701	1,041	–	–	38,742	680
Disposals	–	(369)	–	–	(369)	–
Amortization	(6,352)	(7,358)	–	–	(13,710)	–
Balance, end of year	$ 80,167	$ 55,610	$ 740,559	$ 285,177	$ 1,161,513	$ 2,656,539

10. GOODWILL AND INTANGIBLE ASSETS *(continued)*

The goodwill and indefinite life intangible assets consisting of investment fund management contracts and trade names are allocated to each cash generating unit (CGU) as summarized in the following table:

	2015		2014	
	GOODWILL	INDEFINITE LIFE INTANGIBLE ASSETS	GOODWILL	INDEFINITE LIFE INTANGIBLE ASSETS
Investors Group	**$ 1,347,781**	**$ –**	$ 1,347,781	$ –
Mackenzie	**1,168,580**	**1,002,681**	1,168,580	1,002,681
Other	**143,495**	**23,055**	140,178	23,055
Total	**$ 2,659,856**	**$ 1,025,736**	$ 2,656,539	$ 1,025,736

The Company tests whether goodwill and indefinite life intangible assets are impaired by assessing the carrying amounts with the recoverable amounts. The recoverable amount of the Company's CGUs is based on the best available evidence of fair value less costs of disposal. Fair value is initially assessed with reference to valuation multiples of comparable publicly-traded financial institutions and precedent business acquisition transactions. These valuation multiples may include price-to-earnings or other conventionally used measures for investment managers or other financial service providers (multiples of value to assets under management, revenues, or other measures of profitability). This assessment may give regard to a variety of relevant considerations, including expected growth, risk and capital market conditions, among other factors. The valuation multiples used in assessing fair value represent Level 2 fair value inputs.

The fair value less costs of disposal of the Company's CGUs was compared with the carrying amount and it was determined there was no impairment. Changes in assumptions and estimates used in determining the recoverable amounts of CGUs can result in significant adjustments to the valuation of the CGUs.

11. DEPOSITS AND CERTIFICATES

Deposits and certificates are classified as other financial liabilities measured at amortized cost.

Included in the assets of the Consolidated Balance Sheets are cash and cash equivalents, loans, and accounts and other receivables amounting to $310.1 million (2014 - $223.3 million) related to deposits and certificates.

		TERM TO MATURITY				
	DEMAND	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	2015 TOTAL	2014 TOTAL
Deposits	**$ 291,748**	**$ 6,938**	**$ 7,111**	**$ 1,062**	**$ 306,859**	$ 219,845
Certificates	**-**	**52**	**1,272**	**1,891**	**3,215**	3,483
	$ 291,748	**$ 6,990**	**$ 8,383**	**$ 2,953**	**$ 310,074**	$ 223,328

12. OTHER LIABILITIES

	2015	2014
Dividends payable	**$ 139,965**	$ 143,662
Interest payable	**21,131**	22,029
Client distributions and other costs	**-**	80,968
Accrued benefit liabilities *(Note 13)*	**208,182**	211,209
Provisions	**37,992**	29,062
Other	**41,748**	41,359
	$ 449,018	$ 528,289

In the third quarter of 2012, Investors Group introduced investment solutions for clients with household investments in Investors Group funds in excess of $500 thousand. At December 31, 2014, an estimated accrual of $81.0 million was recorded related to these lower fee investment solutions. During 2015, additional amounts of $9.3 million were recorded. These amounts, which were paid in 2015, primarily reflect distributions to clients who did not transfer to these lower-priced solutions when eligible.

The Company establishes restructuring provisions related to business acquisitions, divestitures and other items, as well as other provisions in the normal course of its operations. Changes in provisions during 2015 consisted of additional estimates of $17.9 million, provision reversals of $0.4 million and payments of $8.6 million.

Total other liabilities of $215.5 million as at December 31, 2015 (2014 - $290.3 million) are expected to be settled within one year.

13. EMPLOYEE BENEFITS

Defined benefit plans

The Company maintains a number of employee pension and post-employment benefit plans. These plans include a funded registered defined benefit pension plan for all eligible employees, unfunded supplementary executive retirement plans (SERPs) for certain executive officers, and an unfunded post-employment health care, dental and life insurance plan for eligible retirees.

Effective July 1, 2012, the defined benefit pension plan was closed to new members. For all eligible employees hired after July 1, 2012, the Company has a registered defined contribution pension plan.

The defined benefit pension plan is a separate trust that is legally separated from the Company. The defined benefit pension plan is registered under the Pension Benefits Act of Manitoba (Act) and the Income Tax Act (ITA). As required by the Act, the defined benefit pension plan is governed by a pension committee which includes current and retired employees. The Pension Committee has certain responsibilities as described in the Act but may delegate certain activities to the Company. The ITA governs the employer's ability to make contributions and also has parameters that the plan must meet with respect to investments in foreign property.

The defined benefit pension plan provides lifetime pension benefits to all eligible employees based on length of service and final average earnings subject to limits established by the ITA. Death benefits are available on the death of an active member or a retired member.

Employees who are not senior officers are required to make annual contributions based on a percentage of salaries which are subject to a maximum amount.

The actuarial valuation for funding purposes related to the Company's registered defined benefit pension plan, based on a measurement date of December 31, 2013, was completed in May 2014. Based on the actuarial valuation, the registered pension plan had a solvency deficit of $23.4 million compared to $106.3 million in the previous actuarial valuation, which was based on a measurement date of December 31, 2012. The reduction in solvency deficit resulted primarily from higher interest rates and market returns on the plan assets, and is required to be funded over five years. During 2015, the Company made contributions of $19.6 million (2014 - $19.4 million). The Company expects to make contributions of approximately $19.3 million in 2016. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy. The next required actuarial valuation will be based on a measurement date of December 31, 2016.

13. EMPLOYEE BENEFITS *(continued)*

Defined benefit plans *(continued)*

The SERPs are non-registered, non-contributory defined benefit plans which provide supplementary benefits to certain retired executives.

The other post-employment benefit plan is a non-contributory plan and provides eligible employees a reimbursement of medical costs or a fixed amount per year to cover medical costs during retirement.

The SERPs and other post-employment benefit plans are managed by the Company with oversight from the Board of Directors.

The defined benefit plans expose the Company to actuarial risks such as mortality risk which represents life expectancy and impacts the calculation of the obligations; interest rate risk which impacts the discount rate used to calculate the obligations and the actual return on plan assets; salary risk as estimated salary increases are used in the calculation of the obligations; and investment risk as the nature of the investments impact the actual return on the plan assets. The risks are managed by regular monitoring of the plans, applicable regulations and other factors that could impact the Company's expenses and cash flows.

Plan assets, benefit obligations and funded status:

	2015			2014		
	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS
Fair value of plan assets						
Balance, beginning of year	**$ 310,095**	**$ –**	**$ –**	$ 275,950	$ –	$ –
Employee contributions	**3,687**	**–**	**–**	3,813	–	–
Employer contributions	**19,593**	**–**	**–**	19,384	–	–
Benefits paid	**(11,466)**	**–**	**–**	(11,232)	–	–
Interest income	**12,956**	**–**	**–**	14,282	–	–
Remeasurements:						
– Return on plan assets	**1,413**	**–**	**–**	7,898	–	–
Balance, end of year	**336,278**	**–**	**–**	310,095	–	–
Accrued benefit obligation						
Balance, beginning of year	**415,946**	**54,392**	**50,966**	319,690	47,106	44,265
Benefits paid	**(11,466)**	**(1,527)**	**(1,994)**	(11,232)	(1,548)	(2,054)
Current service cost	**22,723**	**1,299**	**1,455**	15,513	1,168	1,199
Past service costs	**–**	**–**	**2,461**	–	–	–
Employee contributions	**3,687**	**–**	**–**	3,813	–	–
Interest expense	**16,890**	**2,118**	**2,038**	15,986	2,240	2,030
Remeasurements:						
Actuarial losses (gains)						
– Demographic assumption	**1,803**	**–**	**(3,545)**	11,535	697	1,160
– Experience adjustments	**(907)**	**879**	**(904)**	104	(1,015)	(103)
– Financial assumptions	**(9,509)**	**(680)**	**(1,665)**	60,537	5,744	4,469
Balance, end of year	**439,167**	**56,481**	**48,812**	415,946	54,392	50,966
Accrued benefit liability	**$ 102,889**	**$ 56,481**	**$ 48,812**	$ 105,851	$ 54,392	$ 50,966

13. EMPLOYEE BENEFITS *(continued)*

Defined benefit plans *(continued)*

Significant actuarial assumptions used to calculate the defined benefit obligation:

			2015			2014
	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS
Discount rate	**4.25%**	**3.85%-4.15%**	**3.90%**	4.10%	2.05%-4.15%	3.90%
Rate of compensation increase	**3.90%**	**3.75%**	**N/A**	3.90%	3.75%	N/A
Health care cost trend rate [(1)]	**N/A**	**N/A**	**5.89%**	N/A	N/A	5.91%
Mortality rates at age 65 for current pensioners	**23.3 years**	**23.3 years**	**23.3 years**	23.3 years	23.3 years	23.3 years

(1) Trending to 4.50% in 2034 and remaining at that rate thereafter.

The weighted average duration of the pension plans' defined benefit obligation at the end of the reporting period is 18.1 years (2014 - 18.4 years).

Benefit expense:

			2015			2014
	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS
Current service cost	**$ 22,723**	**$ 1,299**	**$ 1,455**	$ 15,513	$ 1,168	$ 1,199
Past service costs	**–**	**–**	**2,461**	–	–	–
Net interest cost	**3,934**	**2,118**	**2,038**	1,704	2,240	2,030
	$ 26,657	**$ 3,417**	**$ 5,954**	$ 17,217	$ 3,408	$ 3,229

13. EMPLOYEE BENEFITS *(continued)*

Defined benefit plans *(continued)*

Sensitivity analysis:

The calculation of the accrued benefit liability and the related benefit expense are sensitive to the significant actuarial assumptions. The following table presents the sensitivity analysis:

	2015		2014	
	INCREASE (DECREASE) IN LIABILITY	INCREASE (DECREASE) IN EXPENSE	INCREASE (DECREASE) IN LIABILITY	INCREASE (DECREASE) IN EXPENSE
Defined benefit pension plan				
Discount rate (+ / - 0.25%)				
Increase	**$ (18,004)**	**$ (1,797)**	$ (17,708)	$ (1,677)
Decrease	**19,237**	**1,854**	18,947	1,733
Rate of compensation increase (+ / - 0.25%)				
Increase	**7,014**	**855**	6,286	682
Decrease	**(6,914)**	**(842)**	(6,223)	(669)
Mortality				
Increase 1 year	**7,461**	**823**	8,951	722
SERPs				
Discount rate (+ / - 0.25%)				
Increase	**(1,697)**	**19**	(1,723)	7
Decrease	**1,779**	**(22)**	1,809	(9)
Rate of compensation increase (+ / - 0.25%)				
Increase	**132**	**26**	154	28
Decrease	**(131)**	**(26)**	(152)	(28)
Mortality				
Increase 1 year	**1,236**	**57**	1,218	54
Other post-employment benefits				
Discount rate (+ / - 0.25%)				
Increase	**(1,346)**	**23**	(1,460)	11
Decrease	**1,410**	**(26)**	1,531	(13)
Health care cost trend rates (+ / - 1.00%)				
Increase	**1,922**	**75**	3,104	120
Decrease	**(1,654)**	**(64)**	(2,617)	(102)
Mortality				
Increase 1 year	**1,370**	**71**	1,708	88

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur as changes in certain assumptions may be correlated.

13. EMPLOYEE BENEFITS *(continued)*

Defined benefit plans *(continued)*

Asset allocation of defined benefit pension plan by asset category:

	2015	2014
Equity securities	**67.7 %**	64.3 %
Fixed income securities	**29.1**	33.5
Cash and cash equivalents	**3.2**	2.2
	100.0 %	100.0 %

The defined benefit pension plan adheres to its Statement of Investment Policies and Procedures which includes investment objectives, asset allocation guidelines and investment limits by asset class. The defined benefit pension plan assets are invested in proprietary investment funds with the exception of cash on deposit with Schedule I Canadian chartered banks.

Defined contribution pension plans

The Company maintains a number of defined contribution pension plans for eligible employees. The total expense recorded in Non-commission expense was $2.0 million (2014 - $1.4 million).

Group Retirement Savings Plan (RSP)

The Company maintains a group RSP for eligible employees. The Company's contributions are recorded in Non-commission expense as paid and totalled $6.2 million (2014 - $6.4 million).

14. INCOME TAXES

Income tax expense:

	2015	2014
Income taxes recognized in net earnings		
Current taxes		
Tax on current year's earnings	**$ 216,966**	$ 196,947
Adjustments in respect of prior years	**(4,342)**	(17,783)
	212,624	179,164
Deferred taxes	**(2,374)**	23,698
	$ 210,250	$ 202,862

Effective income tax rate:

	2015	2014
Income taxes at Canadian federal and provincial statutory rates	**26.72 %**	26.58 %
Effect of:		
Proportionate share of affiliate's earning *(Note 8)*	**(3.01)**	(2.68)
Tax loss consolidation *(Note 25)*	**(2.44)**	(2.06)
Other items	**(0.05)**	(0.82)
Effective income tax rate	**21.22 %**	21.02 %

14. INCOME TAXES *(continued)*

Deferred income taxes

Sources of deferred income taxes:

	2015	2014
Deferred income tax assets		
Accrued benefit liabilities	**$ 56,180**	$ 57,000
Loss carryforwards	**4,555**	5,607
Other	**47,440**	42,679
	108,175	105,286
Deferred income tax liabilities		
Deferred selling commissions	**195,090**	189,820
Intangible assets	**141,369**	141,287
Other	**15,119**	15,338
	351,578	346,445
	$ 243,403	$ 241,159

Deferred income tax assets and liabilities are presented on the Consolidated Balance Sheets as follows:

	2015	2014
Deferred income tax assets	**$ 64,946**	$ 69,405
Deferred income tax liabilities	**308,349**	310,564
	$ 243,403	$ 241,159

As at December 31, 2014, the Company had non-capital losses of $7.9 million available to reduce future taxable income, the benefit of which had not been recognized.

15. LONG-TERM DEBT

MATURITY	RATE	SERIES	2015	2014
March 7, 2018	6.58%	2003	**$ 150,000**	$ 150,000
April 8, 2019	7.35%	2009	**375,000**	375,000
December 13, 2027	6.65%	1997	**125,000**	125,000
May 9, 2031	7.45%	2001	**150,000**	150,000
December 31, 2032	7.00%	2002	**175,000**	175,000
March 7, 2033	7.11%	2003	**150,000**	150,000
December 10, 2040	6.00%	2010	**200,000**	200,000
			$ 1,325,000	$ 1,325,000

Long-term debt consists of unsecured debentures which are redeemable by the Company, in whole or in part, at any time, at the greater of par and a formula price based upon yields at the time of redemption.

Long-term debt is classified as other financial liabilities and is carried at amortized cost.

Interest expense relating to long-term debt was $92.1 million (2014 - $92.2 million).

16. SHARE CAPITAL

Authorized

Unlimited number of:
First preferred shares, issuable in series
Second preferred shares, issuable in series
Class 1 non-voting shares
Common shares, no par value

Issued and outstanding

	2015		2014	
	SHARES	STATED VALUE	SHARES	STATED VALUE
Perpetual preferred shares - classified as equity:				
First preferred shares, Series B	**6,000,000**	**$ 150,000**	6,000,000	$ 150,000
Common shares:				
Balance, beginning of year	**251,469,346**	**$ 1,655,581**	252,309,767	$ 1,630,844
Issued under Stock Option Plan *(Note 18)*	**337,292**	**14,908**	747,379	35,137
Purchased for cancellation	**(7,018,500)**	**(46,541)**	(1,587,800)	(10,400)
Balance, end of year	**244,788,138**	**$ 1,623,948**	251,469,346	$ 1,655,581

Normal course issuer bid

In 2015, 7,018,500 (2014 - 1,587,800) shares were purchased at a cost of $288.4 million (2014 - $79.5 million). The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

The Company commenced a normal course issuer bid on March 20, 2015 which is effective until March 19, 2016. Pursuant to this bid, the Company may purchase up to 12.5 million or 5% of its common shares outstanding as at March 13, 2015. On April 14, 2014, the Company commenced a normal course issuer bid, effective until March 19, 2015, which authorized it to purchase up to 12.6 million or 5% of its common shares outstanding as at March 31, 2014.

In connection with its normal course issuer bid, the Company has established an automatic securities purchase plan for its common shares. The automatic securities purchase plan provides standard instructions regarding how the Company's common shares are to be purchased under its normal course issuer bid during certain pre-determined trading blackout periods. Outside of these pre-determined trading blackout periods, purchases under the Company's normal course issuer bid will be completed based upon management's discretion.

17. CAPITAL MANAGEMENT

The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory capital requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. Capital of the Company consists of long-term debt, perpetual preferred shares and common shareholders' equity. The Company regularly assesses its capital management practices in response to changing economic conditions.

The Company's capital is primarily utilized in its ongoing business operations to support working capital requirements, long-term investments made by the Company, business expansion and other strategic objectives. Subsidiaries subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. These subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. The Company's subsidiaries have complied with all regulatory capital requirements.

17. CAPITAL MANAGEMENT *(continued)*

The total outstanding long-term debt was $1,325.0 million at December 31, 2015, unchanged from December 31, 2014. Long-term debt is comprised of debentures which are senior unsecured debt obligations of the Company subject to standard covenants, including negative pledges, but which do not include any specified financial or operational covenants.

Perpetual preferred shares of $150 million at December 31, 2015 remain unchanged from December 31, 2014.

The Company purchased 7,018,500 common shares during the year ended December 31, 2015 at a cost of $288.4 million under its normal course issuer bid (Note 16). The Company commenced a normal course issuer bid on March 20, 2015 to purchase up to 5% of its common shares in order to mitigate the dilutive effect of stock options issued under the Company's stock option plan and for other capital management purposes. Other activities in 2015 included the declaration of perpetual preferred share dividends of $8.9 million or $1.475 per share and common share dividends of $556.5 million or $2.25 per share. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity.

18. SHARE-BASED PAYMENTS

Stock option plan

Under the terms of the Company's Stock Option Plan (Plan), options to purchase common shares are periodically granted to employees at prices not less than the weighted average trading price per common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. The options are subject to time and/or performance vesting conditions set out at the grant date. Options vest over a period of up to 7.5 years from the grant date and are exercisable no later than 10 years after the grant date. A portion of the outstanding options can only be exercised once certain performance targets are met. At December 31, 2015, 21,030,691 (2014 - 21,367,983) common shares were reserved for issuance under the Plan.

During 2015, the Company granted 1,295,770 options to employees (2014 - 1,024,685). The weighted-average fair value of options granted during the year ended December 31, 2015 has been estimated at $3.49 per option (2014 - $6.59) using the Black-Scholes option pricing model. The weighted-average closing share price at the grant dates was $44.09. The assumptions used in these valuation models include:

	2015	2014
Exercise price	**$ 43.97**	$ 53.81
Risk-free interest rate	**1.04 %**	1.90 %
Expected option life	**6 years**	6 years
Expected volatility	**20.00 %**	21.00 %
Expected dividend yield	**5.12 %**	4.00 %

Expected volatility has been estimated based on the historic volatility of the Company's share price over six years which is reflective of the expected option life. Stock options were exercised regularly throughout 2015 and the average share price in 2015 was $40.67.

18. SHARE-BASED PAYMENTS *(continued)*

Stock option plan *(continued)*

The Company recorded compensation expense related to its stock option program of $4.4 million (2014 - $5.7 million).

	2015		2014	
	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Balance, beginning of year	**6,940,248**	**$ 44.57**	7,442,999	$ 42.87
Granted	**1,295,770**	**43.97**	1,024,685	53.81
Exercised	**(337,292)**	**37.12**	(747,379)	40.50
Forfeited	**(457,561)**	**44.59**	(780,057)	44.42
Balance, end of year	**7,441,165**	**$ 44.80**	6,940,248	$ 44.57
Exercisable, end of year	**3,526,658**	**$ 44.28**	3,124,226	$ 43.12

Options outstanding at December 31, 2015	EXPIRY DATE	EXERCISE PRICE ($)	OPTIONS OUTSTANDING	OPTIONS EXERCISABLE
	2016	**46.68**	**244,935**	**244,935**
	2017	**50.60 - 50.92**	**553,760**	**553,760**
	2018	**43.19 - 44.60**	**285,840**	**285,840**
	2019	**26.67 - 44.00**	**731,236**	**372,074**
	2020	**40.45 - 42.82**	**796,767**	**681,147**
	2021	**42.49 - 46.72**	**611,103**	**443,668**
	2022	**45.56 - 47.23**	**894,507**	**449,163**
	2023	**44.73 - 47.26**	**1,138,195**	**347,280**
	2024	**53.81**	**936,262**	**148,791**
	2025	**43.28 - 43.97**	**1,248,560**	**-**
			7,441,165	**3,526,658**

Performance share unit plan

The Company has a Performance Share Unit (PSU) plan for eligible employees to assist in retaining and further aligning the interests of senior management with those of the shareholders. Under the terms of the plan, PSUs are awarded annually and are subject to time and performance vesting conditions. The value of each PSU is based on the share price of the Company's common shares. The PSUs are cash settled and vest over a three year period. Certain employees can elect at the time of grant to receive a portion of their PSUs in the form of deferred share units which vest over a three year period. Deferred share units are redeemable when a participant is no longer an employee of the Company or any of its affiliates by a lump sum payment based on the value of the deferred share unit at that time. Additional PSUs and deferred share units are issued in respect of dividends payable on common shares based on a value of the PSU or deferred share unit at the dividend payment date. The Company recorded compensation expense, excluding the impact of hedging, of $4.3 million in 2015 (2014 - $7.4 million) and a liability of $11.6 million at December 31, 2015 (2014 - $14.2 million).

18. SHARE-BASED PAYMENTS *(continued)*

Share purchase plans

Under the Company's share purchase plans, eligible employees and Investors Group consultants can elect each year to have a percentage of their annual earnings withheld, subject to a maximum, to purchase the Company's common shares. The Company matches 50% of the contribution amounts. All contributions are used by the plan trustee to purchase common shares in the open market. Shares purchased with Company contributions vest after a maximum period of three years following the date of purchase. The Company's contributions are recorded in Non-commission expense as paid and totalled $12.0 million (2014 - $11.4 million).

Deferred share unit plan

The Company has a Deferred Share Unit (DSU) plan for the directors of the Company to promote a greater alignment of interest between directors and shareholders of the Company. Under the terms of the plan, directors are required to receive 50% of their annual board retainer in the form of DSUs and may elect to receive the balance of their annual board retainer in cash or DSUs. Directors may elect to receive certain fees in a combination of DSUs and cash. The number of DSUs granted is determined by dividing the amount of remuneration payable by the average closing price on the Toronto Stock Exchange of the common shares of the Company on the last five days of the fiscal quarter (value of DSU). A director who has elected to receive DSUs will receive additional DSUs in respect of dividends payable on common shares, based on the value of a DSU at the dividend payment date. DSUs are redeemable when a participant is no longer a director, officer or employee of the Company or any of its affiliates by cash payments, based on the value of the deferred share units at that time. At December 31, 2015, the fair value of the DSUs outstanding was $12.3 million (2014 - $18.9 million). Any difference between the change in fair value of the DSUs and the change in fair value of the total return swap, which is an economic hedge for the DSU plan, is recognized in Non-commission expense in the period in which the change occurs.

19. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

2015	EMPLOYEE BENEFITS	AVAILABLE FOR SALE SECURITIES	INVESTMENT IN AFFILIATE AND OTHER	TOTAL
Balance, beginning of year	**$ (123,510)**	**$ 194**	**$ 12,598**	**$ (110,718)**
Other comprehensive income (loss)	**11,636**	**2,464**	**64,624**	**78,724**
Balance, end of year	**$ (111,874)**	**$ 2,658**	**$ 77,222**	**$ (31,994)**
2014				
Balance, beginning of year	$ (68,593)	$ 420	$ (14,786)	$ (82,959)
Other comprehensive income (loss)	(54,917)	(226)	27,384	(27,759)
Balance, end of year	$ (123,510)	$ 194	$ 12,598	$ (110,718)

Amounts are recorded net of tax.

20. RISK MANAGEMENT

The Company actively manages its liquidity, credit and market risks.

Liquidity and funding risk related to financial instruments

Liquidity and funding risk is the risk of the inability to generate or obtain sufficient cash in a timely and cost-effective manner to meet contractual or anticipated commitments as they come due or arise.

The Company's liquidity management practices include:

- Maintaining liquid assets and lines of credit to satisfy near term liquidity needs.
- Ensuring effective controls over liquidity management processes.
- Performing regular cash forecasts and stress testing.
- Regular assessment of capital market conditions and the Company's ability to access bank and capital market funding.
- Ongoing efforts to diversify and expand long-term mortgage funding sources.
- Oversight of liquidity by management and by Committees of the Board of Directors.

A key funding requirement for the Company is the funding of commissions paid on the sale of investment funds. Commissions on the sale of investment funds continue to be paid from operating cash flows.

The Company also maintains sufficient liquidity to fund and temporarily hold mortgages pending sale or securitization to long-term funding sources. Through its mortgage banking operations, residential mortgages are sold to third parties including certain mutual funds, institutional investors through private placements, Canadian bank-sponsored securitization trusts, and by issuance and sale of National Housing Act Mortgage Backed Securities (NHA MBS) securities including sales to Canada Housing Trust under the Canada Mortgage Bond Program (CMB Program).

Certain subsidiaries of the Company are approved issuers of NHA MBS and are approved sellers into the CMB Program. Capacity for sales under the CMB Program consists of participation in new CMB issues and reinvestment of principal repayments held in Principal Reinvestment Accounts.

The Company maintains committed capacity within certain Canadian bank-sponsored securitization trusts.

The Company's contractual maturities of certain financial liabilities were as follows:

As at December 31, 2015 (*$ millions*)	DEMAND	LESS THAN 1 YEAR	1 – 5 YEARS	AFTER 5 YEARS	TOTAL
Derivative financial instruments	$ –	$ 18.9	$ 38.9	$ –	$ 57.8
Deposits and certificates	291.8	7.0	8.4	2.9	310.1
Obligations to securitization entities	–	1,234.8	5,798.9	58.7	7,092.4
Long-term debt	–	–	525.0	800.0	1,325.0
Pension funding [(1)]	–	19.3	–	–	19.3
Total contractual maturities	**$ 291.8**	**$ 1,280.0**	**$ 6,371.2**	**$ 861.6**	**$ 8,804.6**

(1) The next required actuarial valuation will be completed based on a measurement date of December 31, 2016. Pension funding requirements beyond 2016 are subject to significant variability and will be determined based on future actuarial valuations. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy.

In addition to the Company's current balance of cash and cash equivalents, liquidity is available through the Company's lines of credit. The Company's lines of credit with various Schedule I Canadian chartered banks totalled $525 million as at December 31, 2015, unchanged from December 31, 2014. The lines of credit as at December 31, 2015 consisted of committed lines of $350 million (2014 - $350 million) and uncommitted lines of $175 million (2014 - $175 million). The Company has accessed its uncommitted lines of credit in the past; however, any advances made by a bank under the uncommitted lines of credit are at the bank's sole discretion. As at December 31, 2015 and December 31, 2014, the Company was not utilizing its committed lines of credit or its uncommitted lines of credit.

The Company's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2014.

20. RISK MANAGEMENT *(continued)*

Credit risk related to financial instruments

Credit risk is the potential for financial loss to the Company if a counterparty to a transaction fails to meet its obligations. The Company's cash and cash equivalents, securities holdings, mortgage portfolios, and derivatives are subject to credit risk. The Company monitors its credit risk management practices on an ongoing basis to evaluate their effectiveness.

At December 31, 2015, cash and cash equivalents of $983.0 million (2014 - $1,216.0 million) consisted of cash balances of $105.4 million (2014 - $106.8 million) on deposit with Canadian chartered banks and cash equivalents of $877.6 million (2014 - $1,109.2 million). Cash equivalents are comprised of Government of Canada treasury bills totalling $132.2 million (2014 - $190.8 million), provincial government and government guaranteed commercial paper of $446.6 million (2014 - $665.8 million) and bankers' acceptances issued by Canadian chartered banks of $298.8 million (2014 - $252.6 million). The Company manages credit risk related to cash and cash equivalents by adhering to its Investment Policy that outlines credit risk parameters and concentration limits. The Company regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

As at December 31, 2015, residential mortgages, recorded on the Company's balance sheet, of $7.4 billion (2014 - $7.0 billion) consisted of $7.0 billion sold to securitization programs (2014 - $6.6 billion), $384.2 million held pending sale or securitization (2014 - $366.2 million) and $27.7 million related to the Company's intermediary operations (2014 - $29.5 million).

The Company manages credit risk related to residential mortgages through:

- Adhering to its lending policy and underwriting standards;
- Its loan servicing capabilities;
- Use of client-insured mortgage default insurance and mortgage portfolio default insurance held by the Company; and
- Its practice of originating its mortgages exclusively through its own network of Mortgage Planning Specialists and Investors Group Consultants as part of a client's comprehensive financial plan.

In certain instances, credit risk is also limited by the terms and nature of securitization transactions as described below:

- Under the NHA MBS program totalling $4.6 billion (2014 - $4.6 billion), the Company is obligated to make timely payment of principal and coupons irrespective of whether such payments were received from the mortgage borrower. However, as required by the NHA MBS program, 100% of the loans are insured by an approved insurer.
- Credit risk for mortgages securitized by transfer to bank-sponsored securitization trusts totalling $2.4 billion (2014 - $2.0 billion) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were $47.7 million (2014 - $35.1 million) and $38.9 million (2014 - $30.0 million), respectively, at December 31, 2015. Cash reserve accounts are reflected on the balance sheet, whereas rights to future net interest income are not reflected on the balance sheet and will be recorded over the life of the mortgages. This risk is further mitigated by insurance with 36.6% of mortgages held in ABCP Trusts insured at December 31, 2015 (2014 - 51.0%).

At December 31, 2015, residential mortgages recorded on balance sheet were 76.8% insured (2014 - 83.7%). As at December 31, 2015, impaired mortgages on these portfolios were $2.9 million, compared to $2.1 million at December 31, 2014. Uninsured non-performing mortgages over 90 days on these portfolios were $1.4 million at December 31, 2015, compared to $0.3 million at December 31, 2014.

The Company also retains certain elements of credit risk on mortgage loans sold to the Investors Mortgage and Short Term Income Fund and to the Investors Canadian Corporate Bond Fund through an agreement to repurchase mortgages in certain circumstances benefiting the funds. These loans are not recorded on the Company's balance sheet as the Company has transferred substantially all of the risks and rewards of ownership associated with these loans.

20. RISK MANAGEMENT *(continued)*

Credit risk related to financial instruments *(continued)*

The Company regularly reviews the credit quality of the mortgages and the adequacy of the collective allowance for credit losses.

The Company's collective allowance for credit losses was $0.7 million at December 31, 2015, compared to $0.8 million at December 31, 2014, and is considered adequate by management to absorb all credit-related losses in the mortgage portfolios based on: i) historical credit performance experience and recent trends, ii) current portfolio credit metrics and other relevant characteristics, and iii) regular stress testing of losses under adverse real estate market conditions.

The Company's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage portfolios have not changed materially since December 31, 2014.

The Company is exposed to credit risk through derivative contracts it utilizes to hedge interest rate risk, to facilitate securitization transactions, and to hedge market risk related to certain stock-based compensation arrangements. These derivatives are discussed more fully under the Market Risk section.

To the extent that the fair value of the derivatives is in a gain position, the Company is exposed to credit risk that its counterparties fail to fulfill their obligations under these arrangements.

The Company's derivative activities are managed in accordance with its Investment Policy which includes counterparty limits and other parameters to manage counterparty risk. The aggregate credit risk exposure related to derivatives that are in a gain position of $58.4 million (2014 - $43.3 million) does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements and including rights to future net interest income, was $1.0 million at December 31, 2015 (2014 - $2.5 million). Counterparties are all Canadian Schedule I chartered banks and, as a result, management has determined that the Company's overall credit risk related to derivatives was not significant at December 31, 2015. Management of credit risk related to derivatives has not changed materially since December 31, 2014.

20. RISK MANAGEMENT *(continued)*

Market risk related to financial instruments

Market risk is the potential for loss to the Company from changes in the values of its financial instruments due to changes in foreign exchange rates, interest rates or equity prices. The Company's financial instruments are generally denominated in Canadian dollars and do not have significant exposure to changes in foreign exchange rates.

Interest Rate Risk

The Company is exposed to interest rate risk on its loan portfolio and on certain of the derivative financial instruments used in the Company's mortgage banking operations.

The Company manages interest rate risk associated with its mortgage banking operations by entering into interest rate swaps with Canadian Schedule I chartered banks as follows:

- The Company has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. As previously discussed, as part of the CMB Program, the Company is party to a swap whereby it is entitled to receive investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a negative fair value of $47.4 million (2014 - negative $26.3 million) and an outstanding notional value of $740 million at December 31, 2015 (2014 - $437 million). The Company enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages and reinvestment returns decline. The fair value of these swaps totalled $54.5 million (2014 - $35.2 million), on an outstanding notional amount of $1.8 billion at December 31, 2015 (2014 - $2.0 billion). The net fair value of these swaps of $7.1 million at December 31, 2015 (2014 - $8.9 million) are recorded on balance sheet and have an outstanding notional amount of $2.6 billion (2014 - $2.4 billion).
- The Company is exposed to the impact that changes in interest rates may have on the value of mortgages committed to or held pending sale or securitization to long-term funding sources. The Company enters into interest rate swaps to hedge the interest rate risk related to funding costs for mortgages held by the Company pending sale or securitization. The negative fair value of these swaps totalled $0.1 million (2014 - negative $0.5 million) on an outstanding notional amount of $88 million at December 31, 2015 (2014 - $101 million).

As at December 31, 2015, the impact to annual net earnings of a 100 basis point increase in interest rates would have been a decrease of approximately $0.7 million (2014 - decrease of $2.2 million). The Company's exposure to and management of interest rate risk have not changed materially since December 31, 2014.

Equity Price Risk

The Company is exposed to equity price risk on its proprietary investment funds which are classified as available for sale securities and on its equity securities and proprietary investment funds which are classified as fair value through profit or loss (Note 4).

The Company sponsors a number of deferred compensation arrangements where payments to participants are linked to the performance of the common shares of IGM Financial Inc. The Company hedges this risk through the use of forward agreements and total return swaps.

Risks related to assets under management

Risks related to the performance of the equity markets, changes in interest rates and changes in foreign currencies relative to the Canadian dollar can have a significant impact on the level and mix of assets under management. These changes in assets under management directly impact earnings.

21. DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into derivative contracts which are either exchange-traded or negotiated in the over-the-counter market on a diversified basis with Schedule I chartered banks or Canadian bank-sponsored securitization trusts that are counterparties to the Company's securitization transactions. In all cases, the derivative contracts are used for non-trading purposes. Interest rate swaps are contractual agreements between two parties to exchange the related interest payments based on a specified notional amount and reference rate for a specified period. Total return swaps are contractual agreements to exchange payments based on a specified notional amount and the underlying security for a specific period. Forward contracts are contractual agreements to buy or sell a financial instrument on a future date at a specified price.

Certain of the Company's derivative financial instruments are subject to master netting arrangements and are presented on a gross basis. The amount subject to credit risk is limited to the current fair value of the instruments which are in a gain position and recorded as assets on the Consolidated Balance Sheets. The total estimated fair value represents the total amount that the Company would receive or pay to terminate all agreements at each year end. However, this would not result in a gain or loss to the Company as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

The following table summarizes the Company's derivative financial instruments:

	NOTIONAL AMOUNT					FAIR VALUE	
2015	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	TOTAL	CREDIT RISK	ASSET	LIABILITY
Swaps	**$ 743,122**	**$ 1,929,462**	**$ 2,901**	**$ 2,675,485**	**$ 58,364**	**$ 58,364**	**$ 52,621**
Forward contracts	**7,848**	**18,661**	**–**	**26,509**	**–**	**–**	**5,215**
	$ 750,970	**$ 1,948,123**	**$ 2,901**	**$ 2,701,994**	**$ 58,364**	**$ 58,364**	**$ 57,836**
2014							
Swaps	$ 936,850	$ 1,657,116	$ 423	$ 2,594,389	$ 37,822	$ 37,822	$ 28,660
Forward contracts	7,760	18,476	–	26,236	1,627	1,627	1,128
	$ 944,610	$ 1,675,592	$ 423	$ 2,620,625	$ 39,449	$ 39,449	$ 29,788

The credit risk related to the Company's derivative financial instruments after giving effect to any netting agreements was $1.8 million (2014 - $10.4 million).

The credit risk related to the Company's derivative financial instruments after giving effect to netting agreements and including rights to future net interest income, was $1.0 million (2014 - $2.5 million). Rights to future net interest income are related to the Company's securitization activities and are not reflected on the Consolidated Balance Sheets.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and are matters of significant judgment.

All financial instruments measured at fair value and those for which fair value is disclosed are classified into one of three levels that distinguish fair value measurements by the significance of the inputs used for valuation.

Fair value is determined based on the price that would be received for an asset or paid to transfer a liability in the most advantageous market, utilizing a hierarchy of three different valuation techniques, based on the lowest level input that is significant to the fair value measurement in its entirety.

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Observable inputs other than Level 1 quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable or corroborated by observable market data; and

Level 3 – Unobservable inputs that are supported by little or no market activity. Valuation techniques are primarily model-based.

Markets are considered inactive when transactions are not occurring with sufficient regularity. Inactive markets may be characterized by a significant decline in the volume and level of observed trading activity or through large or erratic bid/offer spreads. In those instances where traded markets are not considered sufficiently active, fair value is measured using valuation models which may utilize predominantly observable market inputs (Level 2) or may utilize predominantly non-observable market inputs (Level 3). Management considers all reasonably available information including indicative broker quotations, any available pricing for similar instruments, recent arm's length market transactions, any relevant observable market inputs, and internal model-based estimates. Management exercises judgment in determining the most appropriate inputs and the weighting ascribed to each input as well as in the selection of valuation methodologies.

Fair value is determined using the following methods and assumptions:

Securities and other financial assets and financial liabilities are valued using quoted prices from active markets, when available. When a quoted market price is not readily available, valuation techniques are used that require assumptions related to discount rates and the timing and amount of future cash flows. Wherever possible, observable market inputs are used in the valuation techniques.

Loans classified as Level 2 are valued using market interest rates for loans with similar credit risk and maturity.

Loans classified as Level 3 are valued by discounting the expected future cash flows at prevailing market yields.

Obligations to securitization entities are valued by discounting the expected future cash flows at prevailing market yields for securities issued by these securitization entities having similar terms and characteristics.

Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.

Long-term debt is valued using quoted prices for each debenture available in the market.

Derivative financial instruments are valued based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Level 1 financial instruments include exchange-traded equity securities and open-end investment fund units and other financial liabilities in instances where there are quoted prices available from active markets.

Level 2 assets and liabilities include fixed income securities, loans, derivative financial instruments, deposits and certificates and long-term debt. The fair value of fixed income securities is determined using quoted market prices or independent dealer price quotes. The fair value of derivative financial instruments and deposits and certificates are determined using valuation models, discounted cash flow methodologies, or similar techniques using primarily observable market inputs. The fair value of long-term debt is determined using indicative broker quotes.

Level 3 assets and liabilities include securities with little or no trading activity valued using broker-dealer quotes, loans, other financial assets, obligations to securitization entities and derivative financial instruments. Derivative financial instruments consist of principal reinvestment account swaps which represent the component of a swap entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal. Fair value is determined by discounting the projected cashflows of the swaps. The notional amount, which is an input used to determine the fair value of the swap, is determined using an average unobservable prepayment rate of 15% which is based on historical prepayment patterns. An increase (decrease) in the assumed mortgage prepayment rate increases (decreases) the notional amount of the swap.

The following table presents the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. The table distinguishes between those financial instruments recorded at fair value and those recorded at amortized cost. The table also excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. These items include cash and cash equivalents, accounts and other receivables, certain other financial assets, accounts payable and accrued liabilities, and certain other financial liabilities.

		FAIR VALUE			
2015	CARRYING VALUE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets recorded at fair value					
Securities					
– Available for sale	**$ 6,092**	**$ 6,092**	**$ –**	**$ –**	**$ 6,092**
– Held for trading	**44,670**	**42,215**	**1,167**	**1,288**	**44,670**
Loans					
– Held for trading	**384,217**	**–**	**384,217**	**–**	**384,217**
Derivative financial instruments	**58,364**	**–**	**58,364**	**–**	**58,364**
Other financial assets	**9,273**	**–**	**–**	**9,273**	**9,273**
Financial assets recorded at amortized cost					
Loans					
– Loans and receivables	**7,008,231**	**–**	**27,856**	**7,238,046**	**7,265,902**
Financial liabilities recorded at fair value					
Derivative financial instruments	**57,836**	**–**	**10,422**	**47,414**	**57,836**
Other financial liabilities	**4,145**	**4,145**	**–**	**–**	**4,145**
Financial liabilities recorded at amortized cost					
Deposits and certificates	**310,074**	**–**	**311,770**	**–**	**311,770**
Obligations to securitization entities	**7,092,414**	**–**	**–**	**7,272,394**	**7,272,394**
Long-term debt	**1,325,000**	**–**	**1,661,150**	**–**	**1,661,150**

22. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

2014	CARRYING VALUE	FAIR VALUE LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets recorded at fair value					
Securities					
– Available for sale	$ 10,220	$ 10,220	$ –	$ –	$ 10,220
– Held for trading	79,325	76,953	769	1,603	79,325
Loans					
– Held for trading	366,227	–	366,227	–	366,227
Derivative financial instruments	39,449	–	39,449	–	39,449
Financial assets recorded at amortized cost					
Loans					
– Loans and receivables	6,652,666	–	29,749	6,819,531	6,849,280
Financial liabilities recorded at fair value					
Derivative financial instruments	29,788	–	3,461	26,327	29,788
Other financial liabilities	6,585	6,585	–	–	6,585
Financial liabilities recorded at amortized cost					
Deposits and certificates	223,328	–	225,266	–	225,266
Obligations to securitization entities	6,754,048	–	–	6,858,924	6,858,924
Long-term debt	1,325,000	–	1,681,954	–	1,681,954

There were no significant transfers between Level 1 and Level 2 in 2015 and 2014.

The following table provides a summary of changes in Level 3 assets and liabilities measured at fair value on a recurring basis.

2015	BALANCE JANUARY 1	GAINS/(LOSSES) INCLUDED IN NET EARNINGS (1)	GAINS/(LOSSES) INCLUDED IN OTHER COMPREHENSIVE INCOME (2)	PURCHASES AND ISSUANCES	SETTLEMENTS	TRANSFERS IN/OUT	BALANCE DECEMBER 31
Assets							
Securities							
– Held for trading	**$ 1,603**	**$ 21**	**$ –**	**$ 69**	**$ –**	**$ (405)**	**$ 1,288**
Other financial assets (3)	**–**	**–**	**3,562**	**–**	**–**	**5,711**	**9,273**
Liabilities							
Derivative financial instruments, net	**26,327**	**(33,929)**	**–**	**(143)**	**12,699**	**–**	**47,414**
2014							
Assets							
Securities							
– Held for trading	$ 1,446	$ 964	$ –	$ 138	$ 945	$ –	$ 1,603
Liabilities							
Derivative financial instruments, net	16,163	(25,458)	–	(1,413)	13,881	–	26,327

(1) Included in Net investment income in the Consolidated Statements of Earnings.
(2) Included in Available for sale securities - Net unrealized gains (losses) in the Consolidated Statements of Comprehensive Income.
(3) Other financial assets previously recorded at cost were remeasured at fair value using recent market transactions.

23. EARNINGS PER COMMON SHARE

	2015	2014
Earnings		
Net earnings	**$ 780,542**	$ 762,101
Perpetual preferred share dividends	**8,850**	8,850
Net earnings available to common shareholders	**$ 771,692**	$ 753,251
Number of common shares *(in thousands)*		
Average number of common shares outstanding	**248,173**	252,108
Add:		
– Potential exercise of outstanding stock options[1]	**126**	670
Average number of common shares outstanding – Diluted basis	**248,299**	252,778
Earnings per common share *(in dollars)*		
Basic	**$ 3.11**	$ 2.99
Diluted	**$ 3.11**	$ 2.98

(1) Excludes 1,145 thousand shares in 2015 related to outstanding stock options that were anti-dilutive (2014 - 140 thousand).

24. CONTINGENT LIABILITIES, COMMITMENTS AND GUARANTEES

Contingent liabilities

The Company is subject to legal actions arising in the normal course of its business. Although it is difficult to predict the outcome of any such legal actions, based on current knowledge and consultation with legal counsel, management does not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on the Company's consolidated financial position.

Commitments

The Company is committed to the following annual future minimum lease payments under its operating leases: 2016 - $26.5 million; 2017 - $24.1 million; 2018 - $20.3 million; 2019 - $16.2 million; and 2020 and thereafter - $52.6 million.

Guarantees

In the normal course of operations, the Company executes agreements that provide for indemnifications to third parties in transactions such as business dispositions, business acquisitions, loans and securitization transactions. The Company has also agreed to indemnify its directors and officers. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Company could be required to pay third parties as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Company has not made any payments under such indemnification agreements. No provisions have been recognized related to these agreements.

25. RELATED PARTY TRANSACTIONS

Transactions and balances with related entities

The Company enters into transactions with The Great-West Life Assurance Company (Great-West), London Life Insurance Company (London Life) and The Canada Life Assurance Company (Canada Life), which are all subsidiaries of its affiliate, Lifeco, which is a subsidiary of Power Financial Corporation. These transactions are in the normal course of operations and have been recorded at fair value:

- During 2015 and 2014, the Company provided to and received from Great-West certain administrative services. The Company distributes insurance products under a distribution agreement with Great-West and Canada Life and received $70.9 million in distribution fees (2014 - $71.6 million). The Company received $17.5 million (2014 - $18.1 million) and paid $21.2 million (2014 - $18.7 million) to Great-West and related subsidiary companies for the provision of sub-advisory services for certain investment funds. The Company paid $72.0 million (2014 - $67.3 million) to London Life related to the distribution of certain investment funds of the Company.
- During 2015, the Company sold residential mortgage loans to Great-West and London Life for $205.6 million (2014 - $183.6 million).

The Company entered into tax loss consolidation transactions with its parent company, Power Financial Corporation, after obtaining advance tax rulings:

- On January 7, 2014, the Company acquired $1.67 billion of 4.51% preferred shares of a wholly-owned subsidiary of Power Financial Corporation. As sole consideration for the preferred shares, the Company issued $1.67 billion of 4.50% secured demand debentures to Power Financial Corporation. The Company has legally enforceable rights to settle these financial instruments on a net basis and the Company intends to exercise these rights.
- On January 6, 2015, the Company acquired $0.33 billion of 4.51% preferred shares of a wholly-owned subsidiary of Power Financial Corporation. As sole consideration for the preferred shares, the Company issued $0.33 billion of 4.50% secured demand debentures to Power Financial Corporation. The Company has legally enforceable rights to settle these financial instruments on a net basis and the Company intends to exercise these rights.

The preferred shares and debentures and related dividend income and interest expense are offset in the Consolidated Financial Statements of the Company. Tax savings arise due to the tax deductibility of the interest expense.

Key management compensation

The total compensation and other benefits to directors and employees classified as key management, being individuals having authority and responsibility for planning, directing and controlling the activities of the Company, are as follows:

	2015	2014
Compensation and employee benefits	**$ 4,451**	$ 4,218
Post-employment benefits	**1,215**	3,313
Share-based payments	**3,973**	3,572
	$ 9,639	$ 11,103

Share-based payments exclude the fair value remeasurement of the deferred share units associated with changes in the Company's share price (Note 18).

26. SEGMENTED INFORMATION

The Company's reportable segments are:

- Investors Group
- Mackenzie
- Corporate and Other

These segments reflect the current organizational structure and internal financial reporting. Management measures and evaluates the performance of these segments based on earnings before interest and taxes.

Investors Group earns fee-based revenues in the conduct of its core business activities which are primarily related to the distribution, management and administration of its investment funds. It also earns fee revenues from the provision of brokerage services and the distribution of insurance and banking products. In addition, Investors Group earns intermediary revenues primarily from mortgage banking and servicing activities and from the assets funded by deposit and certificate products.

Mackenzie earns fee-based revenues from services it provides as fund manager to its investment funds and as investment advisor to sub-advisory and institutional accounts.

Corporate and Other includes Investment Planning Counsel, equity income from its investment in Lifeco (Note 8), net investment income on unallocated investments, other income, and also includes consolidation elimination entries.

				2015
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	$ 1,277,897	$ 700,149	$ 60,935	$ 2,038,981
Administration fees	302,797	98,521	16,245	417,563
Distribution fees	195,533	10,602	173,423	379,558
Net investment income and other	70,048	5,985	119,157	195,190
	1,846,275	815,257	369,760	3,031,292
Expenses				
Commission	586,267	304,484	171,318	1,062,069
Non-commission	499,333	294,493	58,575	852,401
	1,085,600	598,977	229,893	1,914,470
Earnings before undernoted	$ 760,675	$ 216,280	$ 139,867	1,116,822
Interest expense				(92,115)
Restructuring and other charges				(33,915)
Earnings before income taxes				990,792
Income taxes				210,250
Net earnings				780,542
Perpetual preferred share dividends				8,850
Net earnings available to common shareholders				$ 771,692
Identifiable assets	$ 8,683,223	$ 1,330,639	$ 2,157,363	$ 12,171,225
Goodwill	1,347,781	1,168,580	143,495	2,659,856
Total assets	$10,031,004	$ 2,499,219	$ 2,300,858	$ 14,831,081

PART C
IGM FINANCIAL INC.

26. SEGMENTED INFORMATION *(continued)*

				2014
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	$ 1,251,287	$ 706,247	$ 56,552	$ 2,014,086
Administration fees	278,596	105,499	13,140	397,235
Distribution fees	179,115	11,495	160,647	351,257
Net investment income and other	51,381	2,682	112,205	166,268
	1,760,379	825,923	342,544	2,928,846
Expenses				
Commission	537,620	298,678	156,375	992,673
Non-commission	445,671	281,393	52,710	779,774
	983,291	580,071	209,085	1,772,447
Earnings before undernoted	$ 777,088	$ 245,852	$ 133,459	1,156,399
Interest expense				(92,152)
Client distributions and other costs				(80,968)
Restructuring and other charges				(18,316)
Earnings before income taxes				964,963
Income taxes				202,862
Net earnings				762,101
Perpetual preferred share dividends				8,850
Net earnings available to common shareholders				$ 753,251
Identifiable assets	$ 8,209,063	$ 1,340,765	$ 2,210,814	$ 11,760,642
Goodwill	1,347,781	1,168,580	140,178	2,656,539
Total assets	$ 9,556,844	$ 2,509,345	$ 2,350,992	$ 14,417,181

PARGESA HOLDING SA

PART D

The attached document discloses information relating to the financial results of Pargesa Holding SA as issued by Pargesa Holding SA.

PARGESA HOLDING SA

Power Financial Corporation and the Frère Group of Charleroi, Belgium, each hold 50.0% of Parjointco N.V., a Netherlands-based company that, as at December 31, 2015, held a 75.4% voting interest and a 55.5% equity interest in Pargesa Holding SA (Pargesa), the Pargesa group's parent company. Pargesa has its head office in Geneva, Switzerland and its shares are listed on the Swiss Exchange (SIX: PARG). The Pargesa group holds interests in a limited number of large European companies.

As at December 31, 2015, Pargesa held a 50.0% equity interest (same in 2014) in Groupe Bruxelles Lambert (GBL), representing 52.0% of the voting rights. GBL, a holding company whose head office is in Brussels, Belgium, is listed on the Euronext Exchange (EBR: GBLB). At the same date, GBL held a 53.9% interest in Imerys (industrial minerals), 9.4% in LafargeHolcim (cement, aggregates and concrete), 2.4% in Total (energy – oil and gas), 7.5% in Pernod Ricard (wines and spirits), 15.0% in SGS (inspection, verification, testing and certification), and 2.3% in Engie [formerly GDF Suez] (energy – electricity and gas). SGS is listed on the Swiss Exchange; LafargeHolcim is listed on the Swiss Exchange and on the Paris Exchange; and all the other companies are listed on the Paris Exchange.

HIGHLIGHTS

The Group's portfolio

During the first six months of 2015, the boards of directors of Holcim and Lafarge announced that they had reached an agreement on revised terms for the merger of equals between the two groups, first announced in 2014. The parties agreed on a new exchange ratio of 9 Holcim shares for 10 Lafarge shares. Lafarge and Holcim also agreed that the new group would announce a post-closing scrip dividend of one new LafargeHolcim share for every 20 existing shares.

On June 1, 2015, Holcim launched its public exchange offer for all Lafarge shares, which closed on July 3, 2015 with 87.46% of Lafarge shares having been tendered to the offer. At the end of the reopening period on July 28, 2015, the results of which were disclosed on July 31, 2015, Holcim held 96.4% of the capital, representing more than 95% of Lafarge's voting rights. A squeeze-out was therefore launched and successfully completed on October 23, 2015. As announced, in September 2015 LafargeHolcim distributed a scrip dividend at a ratio of one new LafargeHolcim share for every 20 existing shares, which had no impact on the income statement. At December 31, 2015, GBL held 9.4% of the capital of LafargeHolcim, the shares of which are listed on the SIX Swiss Exchange and Euronext Paris. GBL's holding in Lafarge, which was previously accounted for using the equity method, was reclassified under assets held for sale at June 30, 2015 and then as an available-for-sale financial asset as of July 10, 2015, the date on which the Lafarge shares were exchanged for LafargeHolcim shares. This generated a net accounting gain of €442 million for GBL, with Pargesa's share amounting to SF243.7 million.

In 2015, GBL sold 12.1 million Total shares, or 0.5% of Total's capital, for proceeds of €556 million, generating a capital gain of €282 million for GBL. Most of these shares were sold through forward contracts that expired in December 2015. These disposals generated a capital gain of SF225.2 million for Pargesa. At December 31, 2015, GBL held 2.4% of the capital of Total, which was still the group's third largest holding at year-end. In February 2016, GBL sold a further 26.2 million Total shares, representing approximately 1% of the company's capital, both in the market and through a private placement by way of an accelerated bookbuilding process to institutional investors. These transactions represented a total amount of €1 billion and generated a capital gain for GBL of approximately €405 million, which will be booked in 2016. Following these transactions, GBL held 1.4% of Total's capital.

Imerys' acquisition of Greek group S&B was completed on February 26, 2015. As the acquisition was partially paid in Imerys shares, the Kyriacopoulos family, the founding shareholder of S&B, now holds approximately 4.7% of Imerys' capital. GBL's holding was therefore slightly diluted, from 56.5% at year-end 2014 to 53.9% at December 31, 2015.

In 2015, GBL received additional requests for the early conversion of bonds exchangeable for Suez (formerly Suez Environnement) shares, which matured in September 2015. In total, GBL delivered 5.1 million Suez shares, representing €59 million in bond par value. As previously announced, the conversions cancelled the debt and resulted in a reversal in the value adjustments previously recorded on the derivatives implicitly embedded in the bonds, as well as a gain on the Suez shares delivered. At December 31, 2015, GBL no longer held any shares in this company.

As part of the expansion of its incubator-type investments, GBL continued to increase its stake in Umicore and held 16.6% of that company's capital at December 31, 2015 (12.4% at December 31, 2014), worth €720 million. GBL is now Umicore's largest shareholder.

In July 2015, GBL announced that it had crossed the statutory threshold of 3% in the capital of Adidas, a world leader in the design and distribution of sportswear. GBL held 4.7% of Adidas's capital, worth €890 million, at December 31, 2015. In January 2016, GBL informed the company that it had passed the statutory threshold of 5% of Adidas's capital.

Finally, in 2015 GBL acquired a stake in the capital of the listed Belgian company Ontex, a leading provider of disposable hygiene products. GBL also acquired some of the new Ontex shares issued in November 2015, in order to maintain its holding at the same level. GBL held 7.6% of Ontex's capital, worth €181 million, at December 31, 2015. On March 16, 2016, GBL informed Ontex that it had passed the statutory threshold of 10% of the company's capital.

Within GBL's financial pillar (Sienna Capital), Ergon Capital Partners III (ECP III) acquired in May 2015 a majority interest in Golden Goose, an Italian designer of contemporary shoes, clothing and accessories. In the first quarter of 2015, Ergon Capital Partners II (ECP II) disposed of its majority holding in Joris Ide, a leader in insulating panels and steel envelope products. This transaction generated a net consolidated gain of €14 million for GBL, with Pargesa's share amounting to SF8 million. Sagard III also made new investments in 2015 – in Safic-Alcan, Les Délices des 7 Vallées and Alvest. In July 2015 the Sagard II fund, in which both GBL and Pargesa are investors, disposed of its stake in Cérélia, generating an overall capital gain of SF12.4 million for Pargesa. Finally, the Sagard III fund sold its interest in the Santiane Group in September 2015, generating a capital gain of SF3.7 million for Pargesa.

In February 2015, Sienna Capital announced that it was investing €150 million in PrimeStone, a new fund whose strategy consists of making medium-to long-term investments in medium-sized listed companies in Europe.

In December 2015, Sienna Capital committed to investing €113 million in BDT Capital Partners II, a private equity fund that currently manages approximately US$8 billion in commitments. The fund's aim is to meet the long-term financial and strategic needs of family-owned and entrepreneurial businesses in the USA and Europe.

At December 31, 2015, debt fund Kartesia had made capital calls of €386 million (representing 76% of the fund's commitments) invested in primary and secondary financing transactions.

In the first quarter of 2016, ECP III acquired a majority stake in Financière Looping SAS, a European theme-park operator.

At December 31, 2015, GBL's commitments under its financial pillar amounted to €413 million (€520 million at December 31, 2014).

At the end of March 2015, Pargesa issued a SF150 million Swiss domestic bond in order to increase its financial resources and fund the refinancing of its 2.5% bond of SF150 million maturing in November 2016. The nine-year bond pays an annual coupon of 0.875% and is redeemable on April 24, 2024. The transaction took place under favourable market conditions and significantly increased Pargesa's average debt maturity.

Company organization

Following the annual general meeting on May 5, 2015, Gérald Frère, vice chairman of the board of directors since 2002 and a member of the board since 1992, replaced Albert Frère as executive director. On February 2, 2015 Albert Frère, vice chairman of the board of directors and executive director, and a board member since 1981, had informed the board of directors that he would not seek another term as director at the annual general meeting on May 5, 2015.

It was with great sadness that all those at the Company learned of the death of Andrew Allender, deputy managing director, financial director and secretary to the board of directors of Pargesa, who passed away on November 2, 2015 at the age of 51. He had joined the company in 1989. The board of directors and the entire Pargesa team would like to express their sincerest condolences to Andrew Allender's family.

Marc-Henri Chaudet, a member of the board of directors since 1996 and chairman of the audit committee since it was created in 1997, informed the chairman of the board of directors that, owing to his age, he would not seek another term as director at the annual general meeting on May 3, 2016. The board of directors would like to thank Mr. Chaudet for his loyalty and invaluable contribution over the last 20 years.

At the annual general meeting on May 3, 2016, the board of directors will submit a proposal to elect Jean-Luc Herbez, a partner in the Swiss law firm Froriep, as director for a one-year term that will expire at the end of the 2017 annual general meeting.

ECONOMIC PRESENTATION OF PARGESA'S FINANCIAL RESULTS

In addition to the financial statements drawn up in accordance with IFRS, Pargesa has published for several years now an economic presentation of its results, in order to provide continuous information over the long term about the contribution of each of its major shareholdings to its results. IFRS require different accounting treatments depending on the Group's percentage holding in each of its investments (full integration, mainly for Imerys, equity method for Lafarge up to June 30, 2015, with other major group holdings being booked as financial instruments), so this continuous view would be interrupted without this additional economic presentation of the group's results.

The economic presentation shows, in terms of the group's share of results, the contribution of the main shareholdings to the consolidated income of Pargesa, together with the income from the operations of the holding companies (Pargesa and GBL), which highlight in particular the income from private equity activities and other investment funds (GBL's financial pillar, now combined under Sienna Capital) and the impact of net financial income. The analysis also draws a distinction between the operating and non-operating items in the income, the non-operating part being composed of net capital gains and losses in connection with disposals and any restructuring costs and impairment, or reversal of previous impairments.

According to this approach, the economic results for 2015 were as follows:

[in millions of Swiss francs] [unaudited]		**DECEMBER 31, 2015**	DECEMBER 31, 2014
Operating contribution of the main shareholdings			
Consolidated:			
Imerys	share of operating income	**102.3**	113.0
Equity method:			
Lafarge (until June 30, 2015)	share of operating income	**12.5**	54.6
Non-consolidated:			
Total	net dividend	**85.0**	97.7
SGS	net dividend	**37.3**	39.7
Engie	net dividend	**25.5**	34.4
Pernod Ricard	net dividend	**19.7**	20.6
Suez (formely Suez Environnement)	net dividend	**0.3**	1.8
Operating contribution of the main shareholdings		**282.6**	361.8
per share [SF]		***3.34***	*4.27*
Contribution from private equity activities and other funds		**13.7**	34.0
Net financial income and expenses		**34.1**	(33.2)
Other operating income from holding company activities		**10.7**	6.3
General expenses and taxes		**(32.7)**	(29.4)
Economic operating income		**308.4**	339.5
per share [SF]		***3.64***	*4.01*
Non-operating income from consolidated or equity-accounted companies		**(150.0)**	(51.6)
Non-operating income from holding company activities		**479.8**	349.0
Net income		**638.2**	636.9
per share [SF]		***7.54***	*7.52*
Average number of shares in circulation [thousands]		**84,659**	84,656
€/SF average exchange rate		**1.067**	1.214

The results at December 31, 2015 were affected by the euro's depreciation against the Swiss franc since the beginning of the year. Most income comes from GBL's contribution, which is denominated in euros. In 2015, the average €/SF exchange rate was 1.067, compared with 1.214 in 2014, a decline of 12.1%.

CONSOLIDATED AND EQUITY-ACCOUNTED HOLDINGS

Imerys

Imerys recorded an 8.0% rise in net income from current operations to €341.5 million in 2015, compared with €316.3 million in 2014. Net income stood at €68.4 million (after non-recurring items of −€273.1 million net of taxes), versus €271.6 million in 2014 (after non-recurring items of –€44.7 million net of taxes). Pargesa's share of Imerys's operating income, in Swiss francs, was down 9.5% to SF102.3 million, mainly reflecting a decline in the average €/SF exchange rate and, to a lesser extent, the dilution of GBL's holding in Imerys, from 56.6% in 2014 to 54.0% in 2015, after new shares were issued as part of the acquisition of the S&B group.

Lafarge

Lafarge's contribution in 2015 represents Pargesa's share of first half of 2015 results; this holding was deconsolidated in early July following the merger with Holcim, as described above. It is therefore not directly comparable to Lafarge's contribution in 2014. In the first half of 2015, Lafarge recorded a 5% rise in sales (stable at constant scope and exchange rates), and EBITDA was up 6%. Lafarge's net income, however, was −€477 million in the first half of 2015, as a result of various one-off items such as impairments on assets to be divested to CRH, costs related to the merger and other restructuring costs. Pargesa's share of Lafarge's first half of 2015 operating income, in Swiss franc terms, was SF12.5 million, compared with SF54.6 million in 2014.

NON-CONSOLIDATED HOLDINGS

The contributions from Total, SGS, Engie, Pernod Ricard and Suez represent Pargesa's share of net dividends recorded by GBL from these companies.

Total

Pargesa's share of Total dividends amounted to SF85.0 million in 2015, consisting of the final 2014 dividend (€0.61 per share) and the first three quarterly interim dividends for 2015, also each amounting to €0.61 per share. The aggregate amount was therefore €2.44 per share, the same as a year earlier. The decrease in Total's contribution in 2015 (Pargesa's share was SF97.7 million in 2014) was mainly a result of the depreciation of the euro.

Engie

As part of its new dividend policy, in the second quarter of 2015 Engie paid a final 2014 dividend of €0.50 per share, compared with €0.67 per share a year earlier. In the third quarter of 2015 it paid an interim dividend for 2015 also of €0.50 per share (unchanged from 2014). Engie's contribution to Pargesa in 2015 came to SF25.5 million, compared with SF34.4 million in 2014.

Pernod Ricard

In the second quarter of 2015, Pernod Ricard paid an interim dividend of €0.82 per share, the same amount as a year earlier. The final 2014-2015 dividend was €0.98 per share, compared with €0.82 a year earlier. Pernod Ricard's 2015 contribution, taking into account the impact of exchange rates, was SF19.7 million, compared with SF20.6 million in 2014.

SGS

SGS paid an annual dividend of SF68 per share, compared with SF65 per share in 2014. Pargesa's share came to SF37.3 million. Even though SGS increased its dividend by 4.6%, there was a slight year-on-year decrease in the contribution from SGS, mainly because GBL had hedged the Swiss franc-denominated SGS dividend before the Swiss National Bank removed the €/SF floor in January 2015.

CONTRIBUTION FROM PRIVATE EQUITY ACTIVITIES AND OTHER FUNDS

Contributions from private equity activities and other investment funds come primarily from investments held by GBL under its "financial pillar" (Sienna Capital), as well as from general expenses relating to these funds (including management fees). In 2015, the net contribution of SF13.7 million included: Pargesa's SF7.8 million share of the gain realized by ECP II on the disposal of its majority holding in Joris Ide; Pargesa's SF12.4 million share of the gain realized by Sagard II on the disposal of Cérélia; and its SF3.7 million share of the gain realized by Sagard III on the disposal of the Santiane group. In 2014, the net contribution of SF34.0 million included: Pargesa's SF51.1 million share of the capital gains on the disposals of the stakes in Zellbios, held by ECP II, and in Corialis, held jointly by ECP II and the Sagard II fund, in which GBL and Pargesa are both investors.

NET FINANCIAL INCOME AND EXPENSES

Net financial income and expenses includes interest income and expenses as well as other financial income and expenses, including the marking to market of derivative financial instruments. This item stood at SF34.1 million in 2015, compared with −SF33.2 million in 2014.

It included the non-cash impacts at GBL relating to the derivative instruments implicitly embedded in the bonds exchangeable for Suez and Engie shares or convertible into existing GBL shares. In 2015, Pargesa's share of these non-cash impacts was SF55.8 million (−SF6.3 million in 2014) and comprised:

- SF48.6 million (-SF61.0 million in 2014), relating to the marking to market of the derivative instruments implicitly embedded in outstanding exchangeable and convertible bonds, primarily as a result of changes in the stock market prices of the shares underlying the bonds still outstanding at December 31, 2015;
- SF7.2 million (SF54.7 million in 2014), representing the reversal of the cumulative negative value adjustments on the derivatives implicitly embedded in the bonds exchangeable for Suez shares redeemed in 2015 (on early conversion or at maturity) and recorded since the corresponding bonds were issued. It should be remembered that there was early conversion of approximately 85% of these bonds in 2014.

As mentioned since 2013, exchangeable and convertible bonds lead to accounting asymmetry and volatility in reported financial results throughout the bonds' lifetime.

OPERATING INCOME FROM HOLDING COMPANY ACTIVITIES

Other operating income from holding company activities mainly comprises Pargesa's share of net dividends booked by GBL on its incubator-type investments.

GENERAL EXPENSES AND TAXES

The general expenses and taxes line item represents Pargesa's general expenses and taxes as well as its share of those of GBL.

NON-OPERATING INCOME

Non-operating income from consolidated or equity-accounted shareholdings comprises Pargesa's share of the non-operating income of Imerys and Lafarge. In 2015, this item mainly reflects Pargesa's share of the impairment in goodwill and other assets recorded by Imerys in its Oilfield Solutions division in addition to restructuring costs, together with impairments, restructuring costs and other costs related to the merger with Holcim booked by Lafarge in the first half of 2015, when this holding was still accounted for using the equity method.

The net amount of non-operating income from holding companies was SF479.8 million in 2015, compared with SF349.0 million in 2014.

In 2015, non-operating income mainly consisted of:

- Pargesa's SF243.7 million share of the net impact of the deconsolidation of Lafarge on July 10;
- Pargesa's SF225.2 million share of the gain from GBL's sale of 0.5% of the share capital of Total, including an historical exchange-rate gain of SF68.9 million for Pargesa; and
- Pargesa's SF14.3 million share of the net gain (including an historical exchange-rate gain of SF8.4 million for Pargesa) recorded on the delivery of 5.1 million Suez shares to holders of exchangeable bonds who exercised their exchange rights early or at maturity.

In 2014, non-operating income mainly consisted of:

- Pargesa's SF274.7 million share of the gain from GBL's sale of 0.6% of the share capital of Total, including an historical exchange-rate gain of SF63.2 million for Pargesa.
- Pargesa's SF74.7 million share of the net gain (including an historical exchange-rate gain of SF40.5 million for Pargesa) recorded on the delivery of Suez shares to bondholders who exercised their exchange rights early.

Please note: As mentioned previously, GBL's holding in Lafarge, which was previously accounted for using the equity method, was reclassified under assets held for sale at June 30, 2015 and then as an available-for-sale financial asset as of July 10, 2015, the date on which the Lafarge shares were exchanged for LafargeHolcim shares. This generated a net accounting (i.e. non-cash) gain of €442 million for GBL, with Pargesa's share amounting to SF243.7 million. Following this reclassification, the cost for GBL of its holding in LafargeHolcim now corresponds to the share price in euros on July 10, 2015.

As the holding in LafargeHolcim is classified as an available-for-sale financial asset, accounting rules specific to this asset category must now be applied, particularly as regards the contribution to income (dividend) and the recognition of impairments, especially in the event of a significant or prolonged decline in the share price.

LafargeHolcim's share price is currently below its accounting cost. GBL did not recognize an impairment on its holding at December 31, 2015, as the corresponding accounting criteria had not been fulfilled at that date. However, the LafargeHolcim share price has continued to fall since the start of 2016; at March 11, 2016, it stood at €38.8 per share. If the share price was still at this level at March 31, 2016, under IFRS and the group's accounting principles, GBL would have to recognize a non-cash impairment of €1,584 million in its first quarter of 2016 accounts, with Pargesa's share amounting to SF900 million based on current exchange rates. This recognition would not, however, have any impact on Pargesa's adjusted net asset value.

PRESENTATION OF RESULTS IN ACCORDANCE WITH IFRS

The simplified income statement in accordance with IFRS is as follows:

[in millions of Swiss francs] [unaudited]	**DECEMBER 31, 2015**	DECEMBER 31, 2014
Operating income	**4,774.4**	4,854.6
Operating expenses	**(4,478.8)**	(4,399.3)
Other income and expenses	**820.3**	833.5
Operating profit	**1,115.9**	1,288.8
Dividends and interest from long-term investments	**345.2**	384.4
Other financial income and expenses	**(31.1)**	(229.1)
Taxes	**(69.8)**	(147.5)
Income from associates and joint ventures	**(77.6)**	91.8
Consolidated net profit [including minority interests]	**1,282.6**	1,388.4
Attributable to minority interests	**644.4**	751.5
Attributable to Pargesa shareholders [group share]	**638.2**	636.9
Average number of shares in circulation [in thousands]	**84,659**	84,656
Basic earnings per share attributable to Pargesa shareholders [SF]	***7.54***	*7.52*
€/SF average exchange rate	**1.067**	1.214

Operating income and expenses are primarily the revenues and operating expenses of Imerys, whose accounts are fully consolidated.

Other income and expenses includes net capital gains and losses as well as impairments or reversal of previous impairments on group shareholdings and operations. At December 31, 2015, this figure included the net impact of the deconsolidation of Lafarge, for an amount of SF469.4 million. It also included the capital gain recorded on GBL's sale of 0.5% of Total's share capital, together with the capital gain recorded in 2015 by GBL following the delivery of Suez shares to holders of bonds exchangeable for Suez shares who had exercised their right to exchange the bonds either early or at maturity in September 2015. In 2014, this line item mainly represented the capital gain recorded on GBL's sale of 0.6% of Total's share capital, and the capital gain recorded by GBL following the delivery of Suez shares to bondholders who had exercised their right to exchange the bonds early.

The dividends and interest from long-term investments item comprises the net dividends recorded by the group from its non-consolidated investments, in 2015 mainly those from Total, SGS, Engie and Pernod Ricard.

The other financial income and expenses and taxes items provide consolidated figures for Pargesa, GBL and Imerys. Other financial income and expenses includes the non-cash impact of GBL's derivative financial instruments (mainly those implicitly embedded in convertible and exchangeable bonds issued by GBL) being marked to market.

Income from associates and joint ventures represents the share of the consolidated net profit contributed by shareholdings accounted for in Pargesa's financial statements using the equity method. In 2015, this item included Pargesa's –SF107.1 million share of the loss recorded in the first half of 2015 by Lafarge, a holding that was accounted for using the equity method until June 30, 2015.

The item minority interests mainly relates to the share of income due to the minority shareholders of GBL and Imerys, these two companies being fully consolidated in the Pargesa group's financial statements.

MAIN GROUP SHAREHOLDINGS

Imerys

For Imerys, the world leader in mineral-based specialty solutions for industry, overall market conditions were difficult in 2015. Furthermore, demand for ceramic proppants for non-conventional oilfields dropped sharply following the continued decline in oil prices. Against this backdrop, the group continued to implement its action plans to protect and improve its operational performance and to invest in innovation and the extension of its portfolio of activities.

In February 2015, Imerys completed its acquisition of S&B, a global player and European leader in bentonite (binders for foundry, sealing solutions, additives for drilling and functional additives) and a world leader in continuous casting fluxes for the steel industry and in wollastonite (functional additives for polymers and paints). S&B also provides perlite-based solutions for building materials and horticulture. The integration of S&B, which started last March, is progressing in line with expectations. Imerys also continued its expansion, with the acquisition of the Precipitated Calcium Carbonate (PCC) division of Solvay, which operates four plants in Europe, of BASF's paper hydrous kaolin (PHK) activities in the USA, and of Matisco, a specialised manufacturer of metal accessories for roofing.

Revenue stood at €4,087 million, compared with €3,688 million in 2014, a rise of 10.8% on a current basis. This improvement reflects the positive impact of changes in scope (+9.5%), mainly stemming from the consolidation of S&B since March 1, 2015, and a positive exchange rate effect (+5.9%) reflecting the depreciation of the euro against the U.S. dollar in particular. At constant scope and exchange rates, revenue was down 4.6% year on year due to the persistent weakness of some markets and regions, as well as a particularly unfavourable basis of comparison in ceramic proppants (gradual ramp-up of production during the previous year). Excluding ceramic proppants, revenue was down 2.5% at constant scope and exchange rates. In this difficult environment, the price/mix effect remained positive, reaching 1.3% for the group as a whole.

Current operating income came in at €538.1 million, compared with €494.6 million in 2014, a rise of 8.8%.

Current operating income was impacted by the decline in sales volumes, which was partly offset by a favourable exchange rate and scope effect, as well as by a positive trend in the mix of activities and effective management measures (improvement in variable costs and a decrease in fixed costs and general expenses). The group's operating margin was 13.2% (13.4% in 2014).

Group share of net income from current operations came in at €341.5 million, compared with €316.3 million in 2014, a rise of 8.0%.

Group share of net income stood at €68.4 million, compared with €271.6 million in 2014. It included other income and expenses net of tax of −€273.1 million in 2015 (−€44.7 million in 2014), made up of a non-cash impairment charge of €209 million on assets in the Oilfield Solutions division (total impairment of goodwill and impairment of part of the assets) owing to the current oil market situation, together with restructuring costs amounting to €64.1 million.

A dividend of €1.75 per share, compared with €1.65 for the year-earlier period (a rise of 6.1%), will be submitted for approval at the annual general meeting of shareholders.

At December 31, 2015, GBL held 53.9% of Imerys's share capital.

Lafarge (first half of 2015)

Lafarge recorded sales of €6,319 million in the first six months of 2015, a rise of 5%. This reflects the divestments made, particularly those in Ecuador, Russia and Pakistan, while the appreciation of many currencies against the euro had a positive impact. On a like-for-like basis, sales in the first six months of 2015 were stable compared with the previous year.

In the first six months of 2015, EBITDA came in at €1,223 million, up 6% on a reported basis. On a like-for-like basis, it rose 2% as a result of cost reduction and innovation measures, together with carbon credit sales.

Current operating income increased 8% to €813 million on a reported basis and 6% on a like-for-like basis. However, Lafarge recorded a net loss of €477 million in the first half of 2015, due to the impact of various one-off items, including €450 million in impairments on some of the assets that were to be divested to CRH in the third quarter of 2015, restructuring costs, and costs relating to the merger with Holcim.

LafargeHolcim (second half of 2015)

[N.B. the full-year 2015, as well as 2014 figures, are on a pro-forma basis; net income and free cash flow for full-year 2015 are not published, as the full-year figures would include pre-and post-merger items.]

Fourth quarter 2015 results were impacted by challenges in selected markets, most notably Brazil, Switzerland, China, Indonesia, Zambia, Nigeria and Azerbaijan. Lower carbon credit revenues and adverse currency movements also affected results. However, positive developments in markets including the U.S., Mexico, Argentina, the Philippines, Australia and the UK look promising.

Net sales were SF7,441 million in the fourth quarter of 2015, down 5.9% over the fourth quarter of 2014, but up 1.7% on a like-for-like basis.

In the Asia-Pacific region, numbers were driven by volume growth in countries including the Philippines, Vietnam, and Australia. Results were affected by the deceleration of economic growth in China and, to some extent, in India. In Indonesia, delays to infrastructure projects and pressure on pricing impacted performance.

In Europe, strong growth in some markets, including the United Kingdom and Romania, showed pockets of growth remain in this challenging region. However, performance in the region was influenced by uncertainty and depressed construction markets in several countries.

The group performed well in large parts of the Latin American market, but was significantly impacted by the deteriorating economic situation in Brazil. Mexican infrastructure projects had a positive effect, and Argentina experienced a stabilization of economic activity over the course of 2015.

Middle East & Africa showed mixed growth. Some of the Group region's markets were impacted by lower demand, resulting from lower oil and commodity prices while other countries such as Kenya and Algeria recorded strong performances. Performance in Egypt was strong with economic tailwinds at the start of the year and increased infrastructure activity, while Nigeria's increased urbanization helped sales. Regional political instability affected markets in Jordan, Syria and Iraq.

LafargeHolcim posted solid results in North America as a result of both the continuing recovery in the United States as well as successful price management and cost optimization. Cement and aggregate volumes increased as a whole across the U.S. and in Eastern Canada, offset partially in particular by reduced demand in some regions (such as Western Canada and Texas), where oil and commodity investments were under pressure. Financial performance increased markedly thanks mainly to the United States as well as an overachievement on synergy realization.

Adjusted operating EBITDA in the fourth quarter of 2015 stood at SF1.40 billion, down 15.3% on the fourth quarter of 2014 (−8.4% like-for-like). Excluding carbon credit sales, the fourth quarter adjusted operating EBITDA was down 12.9% (−5.8% on a like-for-like basis). Adjusted operating EBITDA for full-year 2015 stood at SF5.75 billion, −10.7% on full-year 2014 (−4.6% like-for-like). Excluding carbon credit sales, 2015 adjusted EBITDA was down 9.7% (−3.6% like-for-like).

LafargeHolcim recorded in the fourth quarter of 2015 a net loss of SF2.86 billion. In the context of the deployment of the synergy action plans, the completion of the portfolio review and the progress on the purchase price allocation exercise, the group has recorded a one-off non-cash charge of SF3.0 billion related to asset impairments and other charges in the fourth quarter. Fourth quarter merger, restructuring and other one-off costs were at SF407 million, of which a total of SF182 million was incurred to implement synergy action plans, including restructuring activities.

For the fourth quarter of 2015, free cash flow stood at SF813 million after adjusting for one-off items of SF166 million.

Net debt stood at SF17.3 billion as at December 31, 2015.

Significant progress was made with respect to integration: merger synergies were ahead of plan with SF130 million on operating EBITDA in the second half of 2015 (of which SF94 million in the fourth quarter) versus SF100 million targeted, and the portfolio review has been completed (SF3.5 billion of divestments planned in 2016).

The board of directors will propose to the annual general meeting of shareholders a dividend of SF1.50 per share.

At December 31, 2015, GBL held 9.4% of LafargeHolcim's share capital.

Total

Total is a global, integrated oil and gas group that also has a presence in the chemical industry. In 2015, Total recorded a 9.4% increase in hydrocarbon production to 2,347 boe/d, driven by the start-up of nine projects.

Despite the drop in oil prices (the average Brent price in 2015 was US$52.4 per barrel, compared with US$99.0 in 2014, a drop of 47%) and in gas prices (a drop of 28%), which had a significant impact on the Upstream segment, the group was able to take advantage of its integrated business model, with Refining & Chemicals in particular benefiting from favourable margin levels. Refinery throughput increased by 9% year on year, while petroleum product sales were up 3%. In addition, Total pressed ahead with its cost reduction program, which led to savings of US$1.5 billion.

Adjusted net operating income from business segments was US$11,362 million in 2015, compared with US$14,247 million in 2014, a drop of 20%. Upstream adjusted net operating income was down 55% to US$4,774 million, while the same item for Refining & Chemicals rose 96% to US$4,889 million and that of Marketing & Services was up 35% to US$1,699 million.

Adjusted net income stood at US$10,518 million in 2015, compared with US$12,837 million in 2014, a decrease of 18%. Group share of net income came in at US$5,087 million, compared with US$4,244 million in 2014, and included –US$5,431 million in adjustment items, among which impairments on Fort Hills in Canada and Gladstone LNG in Australia as well as on exploration projects that will not be developed. In 2014, adjustment items amounted to –US$8,593 million and included one-off impairments concerning oil sands in Canada, unconventional gas, European refining and certain other assets in the Upstream segment.

Net investments stood at US$20,360 million in 2015, compared with US$24,140 million a year earlier.

The dividend to be submitted for approval at the annual general meeting of shareholders will be €2.44 per share, unchanged from the previous year.

At December 31, 2015, GBL held 2.4% of Total's share capital.

Engie

Engie (formerly GDF Suez) is a leading international energy group operating in gas, electricity and energy-related services.

In a deteriorated market context, marked in particular by a very difficult market price environment, revenues came in at €69.9 billion in 2015, compared with €74.7 billion in 2014, a decrease of 6.4% on a reported basis (−8.8% in organic terms). This decrease reflects lower commodity prices, the decline in LNG activities and the unavailability of the Doel 3 and Tihange 2 nuclear plants (throughout almost the entire year) and Doel 1 being offline in Belgium. This was partially offset by the appreciation of the U.S. dollar against the euro and by more favourable weather conditions in France, despite very mild temperatures towards the end of 2015 (2014 had been a particularly warm year).

Group EBITDA amounted to €11.3 billion, compared with €12.1 billion in 2014, down 7.2% on a reported basis and down 9.1% on an organic basis, mainly for the same reasons as indicated above.

Group share of net recurring income was €2.6 billion in 2015, compared with €2.7 billion a year earlier, and included lower tax expense and lower recurring financial expenses.

Engie reported in 2015 a net loss (group share) of €4.6 billion (compared with net income of €2.4 billion in 2014), which reflected €6.8 billion in impairment losses. These impairments primarily relate to the exploration-production activity which was heavily impacted by the major and prolonged drop in oil and gas prices, and to the LNG supply and sales activity, which was impacted by the turnaround in the LNG market. Impairments also related to power production activities in merchant markets, due to deteriorating fundamentals, and intangible assets in France.

At December 31, 2015, net debt stood at €27.7 billion, a year-on-year increase of €0.2 billion, mainly reflecting the unfavourable impact of changes in exchange rates. The net debt/EBITDA ratio was 2.46x at year-end 2015.

Engie confirmed that it would pay a dividend of €1.00 per share for the 2015 and 2016 financial years and committed to paying a dividend of €0.70 per share for the 2017 and 2018 financial years.

At December 31, 2015, GBL held 2.3% of Engie’s capital, almost all of which corresponded to shares underlying the exchangeable bonds issued by GBL in early 2013 and maturing in 2017.

Pernod Ricard

Pernod Ricard, the world co-leader in wine and spirits, recorded net sales of €8,558 million for the 2014-2015 financial year ending on June 30, 2015, a rise of 2% at constant scope and exchange rates. This increase reflected a return to growth in Asia/Rest of the World (+4%) following an improvement in China and strong momentum in India, growth of 2% in the Americas and stability in Europe. On a reported basis, sales were up 8%, as a result of a very favourable exchange rate effect.

Profit from recurring operations was €2,238 million, a rise of 2% at constant scope and exchange rates. On a reported basis, it increased 9%. The operating margin came in at 26.2%, including a favourable exchange rate effect. At constant scope and exchange rates, the rise in profit from recurring operations reflects in particular the 105bp decrease in the gross margin ratio, a 2% rise in advertising and promotion expenses and a 3% decrease in structure costs.

Group share of net profit from recurring operations came in at €1,329 million, a year-on-year rise of 12%. Group share of net profit declined by 15% to €861 million, mainly due to an impairment charge on the Absolut brand.

The dividend for the 2014-2015 financial year was set at €1.80 per share, an increase of 10%.

For the first half of the 2015-2016 financial year, i.e. the period ending on December 31, 2015, sales were €4,958 million, compared with €4,621 million for the first half of the 2014-2015 financial year. This rise of 7% included a favourable exchange rate impact. Organic sales growth stood at 3%, reflecting accelerated growth in the Americas (+4%), notably driven by the USA (+3%), 5% growth in Asia/Rest of World and a slight improvement in Europe (+1%). The group reported sales growth across the Top 14, Priority Premium Wines and Key Local Brands. Market share gains were recorded in most key markets, while innovation contributed 1% to the organic sales growth, driven by sustained advertising and promotion investments. The group also benefited from a return to positive pricing.

For the first half of 2015-2016 profit from recurring operations came in at €1,438 million, compared with €1,358 million a year earlier, reflecting organic growth of 3% and reported growth of 6%. Pressure on the gross margin eased (–25bp) versus full-year 2014-2015 (–105bp).

Group share of net profit from recurring operations stood at €909 million, compared with €834 million a year earlier, a rise of 9% on a reported basis. Group net profit was €886 million, compared with €788 million a year earlier, a rise of 12%.

At December 31, 2015, GBL held 7.5% of Pernod Ricard's share capital.

SGS

SGS, the world's leading inspection, verification, testing and certification company, recorded SF5.7 billion in revenues in 2015, a year-on-year rise of 3.6% at constant exchange rates (–2.9% on a reported basis), of which 2.0% was organic and 1.6% was contributed by recent acquisitions. The group initiated 14 acquisitions during 2015, ten of which were completed.

Organic growth reflects the strong performance by certain divisions, which was partially offset by the impact that the drop in commodity prices had on the Oil, Gas & Chemicals, Minerals Services and Industrial Services divisions. Adjusted EBITDA reached SF1,191 million, up 3.4% at constant currency rates versus the prior year (-2.9% on a reported basis). Adjusted operating income was SF917 million, a rise of 3.2% at constant currency rates (-3.2% on a reported basis). The adjusted operating margin was stable at 16.1%. Group share of net income for the period was SF549 million, down 6.9% at constant currency rates (-12.7% on a reported basis) versus the prior year, mainly due to restructuring expenses in 2015, while the group had recorded one-off income in 2014. Operating cash flow was SF1,062 million, compared with SF912 million in 2014.

The annual general meeting of shareholders held on March 14, 2016, approved the payment of a dividend of SF68 per share for the 2015 financial year, unchanged from the previous year.

At December 31, 2015, GBL held 15.0% of SGS's share capital.

ADJUSTED NET ASSET VALUE

Pargesa's flow-through adjusted net asset value was SF94.10 per share at December 31, 2015. It is calculated on the basis of the prevailling market values and exchange rates for the listed shareholdings, and on the basis of shareholders' equity (or fair value for private equity activities) and prevailing exchange rates for unlisted investments. The current figure breaks down as follows:

Pargesa's flow-through adjusted net asset value
As at December 31, 2015

[in millions of Swiss francs] [unaudited]	% OF CAPITAL	% OF ECONOMIC INTEREST	SHARE PRICE & CURRENCY	FLOW-THROUGH VALUE	WEIGHTING AS A % OF TOTAL
Imerys	53.9	27.0	64.4 €	1,499	19
LafargeHolcim	9.4	4.7	46.7 €	1,453	18
Total	2.4	1.2	41.3 €	1,338	17
Pernod Ricard	7.5	3.8	105.2 €	1,137	14
SGS	15.0	7.5	1,911 SF	1,123	14
Engie (formerly GDF Suez)	2.3	1.2	16.3 €	485	6
Incubator				974	12
Financial pillar				412	6
Total portfolio				8,421	106
GBL treasury assets				256	3
Net cash (debt)				(707)	(9)
Adjusted net asset value				7,970	100
per Pargesa share			*63.5 SF*	*94.10*	
€/SF exchange rate				1.086	

Pargesa's flow-through adjusted net asset value is published every week on the company's website. It was SF90.70 per share on March 11, 2016.

DIVIDEND

At the annual general meeting, the board of directors will propose a 2015 dividend of SF2.38 per bearer share and SF0.238 per registered share, an increase of 4.8% on the year-earlier dividend. If approved, a total of SF201.5 million will be paid out to shareholders on May 10, 2016.

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Corporate Information

POWER FINANCIAL CORPORATION

751 Victoria Square
Montréal, Québec, Canada H2Y 2J3
514-286-7430
1-800-890-7440

161 Bay Street, Suite 5000
Toronto, Ontario, Canada M5J 2S1

www.powerfinancial.com

This document is also available on the Corporation's website and on SEDAR at www.sedar.com.

Stock Listings

Shares of Power Financial Corporation are listed on the Toronto Stock Exchange:

COMMON SHARES: PWF

FIRST PREFERRED SHARES:

Series A:	PWF.PR.A	Series L:	PWF.PR.L
Series D:	PWF.PR.E	Series O:	PWF.PR.O
Series E:	PWF.PR.F	Series P:	PWF.PR.P
Series F:	PWF.PR.G	Series Q:	PWF.PR.Q
Series H:	PWF.PR.H	Series R:	PWF.PR.R
Series I:	PWF.PR.I	Series S:	PWF.PR.S
Series K:	PWF.PR.K	Series T:	PWF.PR.T

Transfer Agent and Registrar

Computershare Investor Services Inc.

Offices in:
Montréal, Québec; Toronto, Ontario
www.investorcentre.com

Shareholder Services

Shareholders with questions relating to the payment of dividends, change of address and share certificates should contact the Transfer Agent:

Computershare Investor Services Inc.
Shareholder Services
100 University Avenue, 8th Floor
Toronto, Ontario, Canada M5J 2Y1
Telephone: 1-800-564-6253 (toll-free in Canada and the U.S.)
or 514-982-7555
www.computershare.com

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